

THE EFFECT OF FINANCIAL RATIOS ON FINANCIAL
PERFORMANCE OF SELECTED QUOTED FOOD AND
BEVERAGE COMPANIES IN NIGERIA

BY

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ND/ACCTS/20/081

A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF NATIONAL DIPLOMA IN
ACCOUNTANCY IN THE DEPARTMENT OF ACCOUNTANCY
SCHOOL OF COMMERCE AND MANAGEMENT SCIENCES
BAYELSA STATE POLYTECHNIC, ALEIBIRI

NOVEMBER, 2022

DECLARATION

I declare that this project is based on a study conducted by me, Victory James in the Department of Accountancy, Bayelsa State Polytechnic, Aleibiri under the supervision of MrTiminipreOkpobo. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other authors/researchers have been expressed, they have been duly acknowledged.

Name: Victory James

Sign:.....

Date:.....

CERTIFICATION

The project, the effect of financial ratios on financial performance of selected quoted food and beverage companies in Nigeria, meets the regulations governing the award of National Diploma in Accounting, Department of Accountancy, Bayelsa State Polytechnic, Aleibiri.

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DEDICATION

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ACKNOWLEDGEMENTS

I want to appreciate all my lecturers at Bayelsa State Polytechnic, especially my project supervisor, MrTiminipreOkpobo, for his patience, understanding, constructive and painstaking corrections in the course of this work. Special thanks to the Dean of our school, Mr. James Poyeri, our amiable HOD, Dr Laime Isaac Odogu, Dr. Sunday Zibaghafa, Mr Sulaiman Disu and MrAnderson Obalakumo, for the knowledge they have imparted in me throughout my programme.

In addition, I would like to express my unlimited gratitude to my loving parents, siblings and relatives who have helped and given me encouragement.

My acknowledgement will not be complete without mentioning the support of my dear Pastor Saint Iweiya, Mr. Emi and my mentor Mr. Olikagu Chibueze Anthony.

Finally, to everyone who contributed to this research, I say a very big “Thank you”.

ABSTRACT

This study determined the effect of financial ratio analysis on financial performance of food and beverages companies in Nigeria, using market ratio, debt-equity ratio, profitability ratio and return on assets. Ex-post facto research design was employed in the study. In this study, simple linear regression was utilized. The data were obtained from the annual reports of the twenty (20) sampled firms under study for a six (6) year period covering from 2016-2021. The result of the regression analysis reveals that market ratio, debt-equity ratio and profitability ratio significantly affect return on assets of food and beverage companies in Nigeria at 5% level of significance. It was recommended that company management should utilize its cost efficiently in generating more income for the company, thus maximizing shareholders' wealth through improved earnings per share.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Businesses in the world can be categorized into two: profit –oriented and non-profit oriented. Regardless of the nature of the business, financial performance plays a key role in an organization in its path to achieve its goals. Information regarding financial performance would shape the decision regarding the future of the organization. That is why accounting has been evolving to cater for the financial information needs of every business, irrespective of its nature and bottomline, thereby providing relevant information about the financial performance in order to enable these businesses make informed decisions.

Financial ratio is one of the strategies for determining an organization's degree of performance. It is defined as the methods for converting aggregate financial data into meaningful quotients that can be compared to other financial data. The difficulty in determining a firm's success with financial ratios is achieving the required trade-off between liquidity, solvency, and profitability (Padachi, 2006; Lazaridis, 2006). Financial ratio management in terms of liquidity, solvency, and profitability is critical for financial performance since it has a direct impact on business profitability (Rajesh & Ramana, 2011). Maintaining a firm's liquidity for day-to-day operations is an important component of managing its finance and working capital, since it ensures the firm functions smoothly and improves its capacity to meet its obligations (Eljelly, 2004). As a result, the ultimate goal of profitability can be realized through optimal resource allocation and shareholder value maximization (Panwala, 2009). It can be achieved by financial performance

analysis, according to Archibong (2013). However, just because a number appears on a financial statement does not mean that number is significant or that it provides us with relevant information; the importance of the number appears only when compared with other number (Agbata, Osingor&Ezeala, 2021).

Financial ratios can be mentioned as accounting tools which help the various decision makers to take decisions regarding the financial performance of organizations. It helps managers to assess the organization's operations, growth and benchmark the organization with its competitors in the same industry. Analyzing the ratios also help them in planning future performance by taking the current period's performance into consideration. Financial ratio analysis assumes that there is a relationship between certain aspects of the activities of the firm as revealed in the income statements. Accounting figures reported in the financial statement do not provide statement of comprehensive income and the statement of financial position, which established a pattern of behaviour. The information contained in the financial statement of a company is connected with the financial well-being and performance of the reporting entity, organized to enable users of financial statement to draw a conclusion on a meaningful understanding of the performance of the financial position of a firm, except the figure are analyzed with other relevant information through the use of financial ratio analysis (Archibong, 2013).

Having established the fact that a ratio is useful and reliable in measuring the relationship between two things, it is pertinent to examine the effect of financial ratio on financial performance of selected brewery companies in Nigeria.

1.2 Statement of Problem

Financial ratios are tools used to analyze financial conditions and performance. Although financial accounting statements show the financial positions of a business at the end of a financial period, they do not present accurate performance on the level of performance or efficiency of operations of a business at the end of financial period (Agbata, et al, 2021). The question that financial ratios seem to drive more on the values attached to firms has a very controversial issue and yet very much unresolved. Many breweries depend on measuring annual profit and few other indicators, probably because of the difficulty in measuring firm's growth indicators and the influence it exerts on the firm's value. Many investors in Nigeria are uneducated or illiterate and as a result of ignorance or inexperience, they cannot use or employ financial ratios in evaluating the performance of the companies. According Archibong (2013), existing shareholders use the cash dividends and interest paid to them in evaluating the performance of the companies for investment decision. These parameters do not give accurate information about the performance and efficiency of operation of the companies. Based on these problems, the study examined the effect of financial ratios on firm performance.

1.3 Objectives of the Study

The main objective of the study is to examine the effect of financial ratios on financial performance of selected food and beverage companies in Nigeria. More specifically, this study intends to:

- i. Evaluate the effect of market ratio on financial performance of selected food and beverage companies in Nigeria.
- ii. Determine the effect of debt-equity ratio on financial performance of selected food and beverage companies in Nigeria.
- iii. Ascertain the effect of profitability ratio on financial performance of selected food and beverage companies in Nigeria.

1.4 Research Questions

Based on the objectives stated above, the following research questions are raised:

- i. To what extent does market ratio affect financial performance of selected food and beverage companies in Nigeria?
- ii. Does debt-equity ratio have any significant effect on financial performance of selected food and beverage companies in Nigeria?
- iii. Is there any significant relationship between profitability ratio and financial performance of selected food and beverage companies in Nigeria?

1.5 Statement of Research Hypotheses

On the basis of the research questions raised above, the following hypotheses are formulated, for subsequent analysis:

Ho 1: There is no significant effect of market ratio on financial performance of selected food and beverage companies in Nigeria.

Ha 1: There is significant effect of market ratio on financial performance of selected food and beverage companies in Nigeria.

Ho 2: Debt-equity ratio has no significant effect on financial performance of selected food and beverage companies in Nigeria.

Ha 2: Debt-equity ratio has significant effect on financial performance of selected food and beverage companies in Nigeria.

Ho 3: There is no significant relationship between profitability ratio and financial performance of selected food and beverage companies in Nigeria.

Ho 3: There is no significant relationship between profitability ratio and financial performance of selected food and beverage companies in Nigeria.

1.6 Significance of the Study

This research work will help in determining how the performance of a company can be measured through the use ratio as a tool of financial analysis.

The study will help in reflecting a qualitative relationship between financial statement of a different period and different firms. It will serve as a reference to other researchers with the mind of having in depth insight about ratios and its performance measuring abilities.

Governments and its agencies will find the work very interesting as it will help strategize effective ways of regulating environmental, labour and social impacts of industry. Governments

appear to be particularly interested in disclosure system that may also be more cost effective, flexible and decentralized, and that build on market mechanism and public participation.

The study will benefit the consumers since they are among the public that have growing concern about the environmental and social impacts of the products they buy, the places they work and the communities they live in, which lead to new demands for corporate disclosure.

Investors have increasingly urged banks to demonstrate their social and environmental performance to investors – both traditional mainstream investors and growing numbers of socially responsible investors will highly benefit from this study.

Corporate organizations will find the study useful in the process of developing reporting systems, measuring performance and tracking changes over time can support the development of information systems that improve internal management of risks, stakeholders etc.

1.7 Scope of the Study

The scope of this study can be considered under three perspectives: **The content scope** is the relationship between financial ratios and financial performance, while the **geographical scope** is a selection of some quoted food and beverage companies in Nigeria and the **time scope** covers the annual reports of the selected companies for a period of six (6) years from 2016 to 2021.

1.8 Definition of Terms

Financial ratio: It is defined as the methods for converting aggregate financial data into meaningful quotients that can be compared to other financial data.

Financial analysis: This can be defined as the process of identifying the financial strengths and weakness of the firm by proper establishment of relationships between the items of the balance sheet and the profit and loss account.

Financial performance: This refers to a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue and overall profitability.

Profitability: This can be defined as a measurement of efficiency of a business, hence it is the ability of a business to produce a return on an investment based on its resources in comparison with an alternative investment.

Profitability ratio: Profitability ratios gauge a company's capacity to turn a profit in relation to the costs that go along with it. A higher profitability ratio than in the last financial reporting period indicates that the company's financial situation is getting better.

Market ratio: Share ownership ratio is another name for market value ratio. It is known as the stockholders' method of evaluating their current and potential investments in a company. The investors in this ratio are interested in how specific factors affect the value of their assets.

Debt equity ratio: It shows how efficient the organization uses other people's money and whether it is using a lot of borrowed money. It checks the financial structure of the business by comparing debt against total capital, against total assets and against owners' funds.

Net profit margin: This is also known as net margin. It indicates how much net income a company makes with total sales achieved. A higher net profit margin means that a company is more efficient at converting sales into actual profit. Net margin measures how successful a company has been at the business of making a profit on each dollar sales.

Return on Assets: This is a measure of financial performance calculated by dividing net profit over the average of Total Assets at Period's Beginning and Total Assets at Period's End.

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CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter deals with reviewing the literature of other authors/ researchers with respect to financial ratios and financial performance. Therefore, this chapter shall be discussed extensively under: conceptual framework, theoretical framework and empirical framework.

2.1 Conceptual Framework

2.1.1 Concept of Financial Ratio

In the preparation of financial ratio analysis, it goes beyond making sure that the account balance and that the company makes either a profit or loss which will be used to make a report at the end of the accounting year. This entails communication, not just to the company workers but also to the general public, which therefore presumes and promotes understanding. So many authors view the concept differently and it also has a consensus, which centers on it being a tool for financial analysis most of which are supportive and others critical.

Pandey (2002) defined financial analysis as the process of identifying the financial strengths and weakness of the firm by proper establishment of relationships between the items of the balance sheet and the profit and loss account. Financial ratio analysis as defined by Kieso and Weyang (2009) identifies present strengths and weaknesses of a company and does not reveal what they are as they are. Financial ratio, according to Osisioma (2000), is an investigation of the resolutions or separations of data into their elements or component parts, as well as the tracing of facts back to their source in order to find the general principles behind individual phenomena. Financial ratios, according to Okwuosa (2005), are a way of expressing the links that exist between the ratio analyses. Financial ratio is the most significant technique for

assessing the performances of firms from their financial statements, according to the Institute of Chartered Accountants of Nigeria, ICAN (2006). Pandey (2010) sees financial ratio as the means of identifying the financial strength and weakness of the firm by properly establishing relationships in the firm through properly establishing relationships between the items of the statement of financial position and statement of comprehensive income. Egungwu (2004) said that ratio provides benchmark on which analysts summarize large quantitative financial data in order to take qualitative and quantitative decisions about the strengths and weaknesses of the firm. Lucey (2001) said that ratio analysis as the systematic production of ratio from both internal and external financial analysis or reports so as to summarize key relationships and results in order to appraise financial success. Brockington (2010) said that the though ratios are valuable, a warning as a must be given automatically which can be regarded as a good or bad. Such values must be related to the type of business which is being carried on and to the accounting processes which have produced the figure on which it is based. Chandra (2001) stated that ratio is an arithmetical relationship between two figures. He forwarded by defining financial ratio analysis as a study of ratio between two various items or group of items in financial statement. Nickerson (2007) says that ratio themselves control nothing nor do they provide explanations of what has happened; there is a danger that they may serve as inadequate, faulty goals and measures of performance, through ratio analysis provides the means for spotting situation that appear to be out of line. Brockington (2010) states the fact that though ratios are valuable, a warning must be given automatically which can be regarded as a good or bad. Such values must be related to the types of business which is being carried on and to accounting processes which have produced the figure on which it is based. Financial ratios analysis can also be said to be a useful analytical tool if used wisely. Agbata et al (2021)

affirmed that financial ratio analysis is the relationship between certain aspects of activities of the firm as revealed in the statement of comprehensive and statement of financial position, which established a pattern of behaviour.

According to Archibong (2013), ratio analysis as a practical means of measuring and improving performance is greatly enhanced when:

- i. Ratio is prepared showing the interlocking and micro dependent nature of factors, which contribute to financial success.
- ii. Ratios are prepared regularly and on a consistent basis, so that trends can be highlighted and the changes investigated.
- iii. Ratios prepared for an individual firm can be compared with other firms in the industry.

Ratio analysis can direct its attention to areas where there is inefficiency and this provides a valuable service but this cannot determine how the inefficiency will be corrected.

2.1.2 Financial Analysis and its Uses to a Firm

According to Archibong (2013), financial analysis is the process of identifying the financial strengths and weaknesses of the firm by proper establishing relationships between the items of the balance sheet and that the profit and loss account. Financial analysis can be undertaken by parties outside the firm and also by the management of the firm viz: owner's creditors, investors and others.

Hampton (2012) said that financial analysis is the process of determining the significant operation and financial characteristic of a firm accounting data and financial settlement. The goals of such analysis are to determine the efficiency and the performance of the firm's management as shown in the financial records and reports. Here, the analyst tries to measure the firm's liquidity, profitability and other indications that the business is conducted properly and in an orderly manner.

Horne (2011) in his own point of view stated that an analyst could be either external or internal. The external analysts are the creditors (long term or short term), the investor also, that is the shareholders of the firm and also the government. While a shareholder is interested in the cash flow ability of an enterprise to service debt owned for a long period of time, long – term creditors will evaluate enterprise ability by analyzing capital structure, short term capital, medium capital and capital gearing as well as the use of funds, the enterprise profitability over time and projection of future profitability. When planning for the future, the financial manager has to assess the forms present financial position and evaluate opportunities in relation to their effect on their position. The financial condition and performing of an enterprise influences the financial method to be employed.

Horne (2011) defined it as the greater the liquidity of a firm, the stronger the overall financing condition and the greater the profitability of the firm. It should however be noted that the performance of a business depends on the result of many individuals' decisions made continually by its management to assess business performance. The financial and economic effects of the business decisions must be analyzed and using comparative measure to judge the result. It is also the general responsibility of the management of the business to make sure that

its resources are put into efficient and effective use and also that its financial condition is perfect.

2.1.3 Tools for Financial Analysis

Archibong (2013) opined that financial statement is the major tool in understanding what happens to the firm's finance as it pursues its business activities. The statement of financial position, statement of comprehensive income, statement of cash flow, statement of changes in equity and notes to the account, when used together offers valuable insight into the firm's effort to achieve liquidity and profitability. This was stated by Hampton (2012), who viewed financial analysis as the analysis of financial ratio which assumes that there is a relationship between certain aspects of the activities of the firm as revealed in the financial statement.

The analysis involves two types of comparison and they are as follows:

- i. Comparing the present financial ratio with past ratio and expected future ratio for the same company.
- ii. Comparing the ratio of one firm with those similar firms at the same point in time.

All business activities want to know how well or badly it has performed. Through the evaluation of its performance in terms of effectiveness and efficiency it will be able to determine how well it has fared. In the area of efficiency and effectiveness, it might want to know its tangible performance for instance, the nature and quality of goods and services provided and also want to evaluate the level of its utilized resources available (Aniebor & Oboro, 2015).

2.1.4 Ratio Analysis and Standard of Comparison

Aniebor and Oboro (2015) opined that ratio is a powerful tool of financial analysis. A ratio is defined as the individual quotient of two mathematical expressions and the relationship between two or more things. It is also used as a yardstick in the evaluation of a firm's performance. A firm's performance can only be said to be good or bad only when the net profit figure is related to relationship between two accounting figures expressed mathematically. It also involves the comparison for a useful interpretation of the financial conditions; it should be compared with some standards.

Standards of comparison consist of the following:

- i. Ratio developed using the Proforma financial statement of a firm.
- ii. Ratio of the industry to which the firm belongs.
- iii. Ratio calculated from past financial statement of the firm
- iv. Ratio of some selected firms especially the most progressive and successful at the time point in time.

One the easiest ways to evaluate the performance of a firm is to compare the present ratios with the past comparison ratios. When financial ratio over the period of time is compared, it gives on insight to the direction of change and reflects whether the firm's financial position and performance has improved or deteriorated. This is only useful when the firms accounting policies and procedures remain constant thereby having no change (Aniebor& Oboro, 2015).

Another type of comparison is the comparison of the ratio of one firm with that of some selected firm in the same industry at the same point in time. This shows the relative financial position and performance of the firm. Chandra (2001) states that ratios are useless except if it is based on an item or standard of comparison.

Archibong (2013) defines it as ratio prepared consistently or regularly without a basis of comparison can be divided into five parts namely:

- i. Cross section analysis: Cross section analysis deals with the comparison of two companies, which operate the same kind of business together.
- ii. Trend analysis: Trend Analysis this is also known as time series a period of time which will enable them detect secular changes and also the avoidance of bias.
- iii. Comparative common analysis: In this analysis the items in the balance sheet are stated as percentage of total sales, such percentage statements are common size statement. this help to reinforce the findings of trend analysis. This provides a useful perspective and facilitates better understanding. There are also useful aids used in sensitizing the analyst to emerging trend and secular changes.
- iv. Industrial average: Average is derived from statistical data collected from firms within the industry. It is a standard of performance set by experts to measure the performance of firms in the same industry.
- v. Index Analysis: Here the items in the comparative statement of financial position and statement of comprehensive income are expressed as an index relative to the base year and the items in the base year naturally assume a value of 100.

- vi. Du point Analysis: it is a useful system of analysis, which considers important inter-relationships based on information found in the financial statement and this has been adopted by a large number of firms.

2.1.5 Types of Financial Ratio

According to Okwuosa (2005), the computation done in financial statement used in interpreting the financial position of a firm is done through ratio. Financial ratios to be applied to a firm are numerous and they are as follows: Ratios that concern management, Ratios of shareholders, Ratios of long-term debts providers, Ratios of suppliers.

He added further that financial ratios are classified thus:

- a. **Liquidity Ratios:** These are used to estimate a company's ability to pay its short-term debts. These are said to be liquid funds, which consist of cash, short term investment which has a ready market, fixed term deposits with a bank, trade receivables and bills of exchange receivable. The two basic liquidity ratios are the current ratio and the quick ratio.

- i. **Current ratio:** The current ratio is calculated by dividing current assets by current liabilities in which the current assets are being converted into cash in order to produce the funds needed to pay current liabilities.

Current Ratio = current assets

current liabilities

- ii. **Quick ratio:** This is more stringent, because it does not count inventory as part of the firm's current assets. It is also known as acid test ratio. It is also based on current asset, which is highly liquid, thereby reducing it by reducing inventories.

$$\text{Quick ratio} = \frac{\text{quick assets}}{\text{current liabilities}}$$

Quick assets include trade receivables and bills receivable.

- iii. **Cash Ratio:** This includes cash and bank balance, and short-term market securities and these are the most liquid assets of a firm.

$$\text{Cash ratio} = \frac{\text{cash} + \text{bank balance} + \text{short-term market securities}}{\text{current liabilities}}$$

- b. **Profitability ratio:** It measures the firm's efficiency at generating profits. Some of the basis profitability ratios are return on assets and return on equity. The profitability ratio shows the firm result of a business in its ability to make profit in its activities thereby measuring the efficiency of the firm's activities. Profitability ratio is calculated by the establishment of a relationship between profit figures, sales and assets.

Egungwu (2004) defined profitability as a measures of management overall effectiveness as shown by the returns generated on sales and investment.

The ratios under profitability are as follows:

- i. **Profit margin ratio:** Here we have the gross profit margin ratios and the net profit margin ratios. It measures the profit made on sales. Earning profit before depreciation interest and taxes

$$= \frac{(\text{PBDIT OR EBDIT}) \times 100}{\text{sales}}$$

- i. **Gross profit margin ratio:** This is the difference between net sales and the cost of the goods sold divided by sales production as well as pricing are being measured in order to determine its efficiency.

$$\begin{aligned} \text{Gross profit margin ratio} &= \frac{\text{sales} - \text{cost of goods sold}}{\text{sales}} \\ &= \frac{\text{gross profit}}{\text{sales}} \end{aligned}$$

- ii. **Net profit margin ratio:** This is obtained when operating expenses, interest and taxes are subtracted from gross profits. the net margin ratio is measured by dividing profit after tax by sales.

$$\text{Net profit margin} = \frac{\text{profit after tax}}{\text{sales}}$$

- iii. **Asset turnover:** This measures how well the assets of a business are being put into use to generate sales.

The combination of sales and capital employed gives rise to the return on capital employed.

Return on capital employed= $\frac{\text{profit before interest and tax}}{\text{capital employed}} \times 100$

capital employed 1

Return on equity: This is defined as profit after taxes divided by shareholders' equity which is given by net worth.

Return on equity (ROE) = $\frac{\text{Profit after taxes}}{\text{Net worth (equity)}}$

Net worth (equity)

c. **Ownership ratio:** This assist a stockholder in the analysis of present and future investment and it can be calculated through the following ratios.

i. **Earning power:** This is used in inter-firm comparison. it is used as a measure of business performance; it is also not affected by payment and change in interest rate.

Earning Power = $\frac{\text{Profit before interest + tax (EBIT)}}{\text{Average total sales}}$

Average total sales

ii. **Earnings per share (EPS):** Pandey (2002) defined earnings per share simply show the profitability of the firm on a per share basis; it does not reflect on how much is paid is paid as dividend and how much is retained in the business. but as a profitability index, it is a valuable and widely used ratio. It also gives the shareholder an opportunity of company one year earnings with that of another.

Earnings per share = $\frac{\text{profit after tax}}{\text{number of shares outstanding}}$

number of shares outstanding

- iii. **Price earnings ratio:** Price earnings ratio can be defined as “earning multiple”. It is used to show how the stock market judge a company’s performance and prospects. The greater the price earnings ratio, the greater the demand for the shares.

$$\text{Price earnings ratio (PER)} = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

- iv. **Dividend cover:** This is defined as net profit after tax plus preference divided by ordinary dividend paid and proposed.

$$\text{Dividend cover} = \frac{\text{Net profit after tax + preference dividend}}{\text{Ordinary dividend paid and proposed}}$$

However, it should be noted that the numerator of these ratios represent current values while the denominators represent historical values.

d. Viability ratios: These are divided into: Activity Ratio and Leverage Ratio

- i. **Activity Ratios:** They are the ratios used to measure the efficiency of utilization of assets to generate sale revenue. activity ratio can be divided into five important groups namely

Debtor turnover, Average turnover, Inventory turnover, Fixed asset turnover and Total asset turnover

Debtor turnover: This is known as receivable turnover. It indicates the numbers of times debtor’s turnover each year.

Debtors Turnover = $\frac{\text{Credit sales} \times 365 \text{ days}}{\text{Average sales}}$

Average collection period: This shows the number of days' worth credit sales that is in the account receivable

Average collection period = $\frac{\text{Average Debtor}}{\text{Net sales}}$

Inventory turnover: This is also known as stock turnover. It indicates the efficiency of the firm in the producing and selling its product. It is calculated by dividing the cost of goods sold by the average inventory.

Inventory Turnover = $\frac{\text{Cost of goods sold}}{\text{Average inventory}} \times 365 \text{ days}$

Fixed asset turnover: It measures how a firm may wish to know its efficiency of utilizing fixed assets

Fixed Asset Turnover = $\frac{\text{sales}}{\text{Net fixed Asset}}$

ii. **Leverage ratios:** These are otherwise known as long-term solvent ratio. They are ratios used to measure the ability of the company to meet its long-term indebtedness as and when due and also to determine the long-term stability of the equity. These are two types of ratio commonly used in analysis of financial leverage: a. Structural ratios b. Coverage ratios

Structural ratios: These are based on the proportion of debt equity ratio and debt asset ratio.

Coverage ratios: This is used to test the firm's debt servicing capacity and the sources of meeting these needs.

2.1.6 Relevance of Financial Ratio Analysis

According to Archibing (2013), the importance of ratio analysis is as follows:

- i. Ratio analysis simplifies the financial statement
- ii. It helps in comparing companies of different size with each other.
- iii. It helps in trend analysis which involves comparing a single company over a period.
- iv. It highlights important information in simple form quickly. A user can judge a company by just looking at few numbers instead of reading the whole financial statements.
- v. The ratio analysis is used to determine the financial statement in order to know how the company has fared during an accounting period or years. Examine trend in raw data can draw meaningful references. Inter firm comparison are useful and experience seems to suggest that financial analysis works if one is aware of accounting basis and makes adjustment for the same.
- vi. Ratio analysis helps in spotting deficiency in a company's performance over a period of time usually a year. It is an instrument that helps in determining efficiency and profitability of the management of a company.
- vii. Ratio analysis, does not only help in performances determination but also help in credit analysis, security analysis, complete and trend analysis.

If financial statements are properly analyzed and interpreted, financial statement can provide valuable insight into a firm's performance and it is also helpful in assessing corporate excellent, judging credit worthiness, forecasting bond rating predicting bankruptcy and assessing market risk. Inter firm comparison of ratio helps in comparing the level of performance of the firm in the industry, its liquidity, profitability and viability in particular year. The management and company's survival depends on their operating performance. The management from time to time uses ratio analysis to determine the firm's financial strength and weakness and also takes action when necessary to improve their position if necessary.

Ratio analysis is a useful analytical technique that can be used to raise a reasonable question on a number of managerial and also provides clues to investigate in detail such issues. This also help in formulating better strategies by management due to its efficiency spotting ability and thereby helping in the creation of an effective and efficient performance in the company (Archibong, 2013).

2.1.7 Limitations of Ratio Analysis

Agbata et al (2021) opined that ratio analysis is widely used technique to evaluate the financial position and performance of a business. Financial ratios can be computed easily and are precise in nature. It is also used to understand a firm's performance and condition. However, there are problems in connection with these ratios:

- i. Numerical items: Ratio analysis also deals with only numerical items which does not look at non measurable factor such as management either values or the quality of management.
- ii. Comparison of ratio between companies: This is usually misleading due to difference in accounting practices in such areas as depreciation, income recognition and intangible assets.
- iii. Difference in common ratio definition: Most times report of two analysts may include the same ratio for a particular company but give very different results.
- iv. Inflationary measures: during the inflationary period the ratio comparing sales and net income to assets and equity may be biased upwards.
- v. Historical maintenance of accounting records: Accounting records are maintained on historical naira, a change in value of the naira can distort the comparability of ratios computed for different period.
- vi. Price level: The price level changes make the interpretation of financial ratios invalid, as a result of these the balance sheet figures are distorted and profit in accounting misreported.
- vii. Management short run decision: management can make certain short run decision prior to the statement dates to influence the ratios.
- viii. Most financial statement is not adjusted either for changes in market values or in the general price level. This may seriously affect comparability between firms over time.

- ix. Finally, ratio shows relationship as they exist in the past at a particular balance sheet date. The analysts are interested the future should not be misleading into believing that the past date necessarily reflects the current or future situation.

2.1.8 Financial Ratios and Performance Evaluation

Market Ratio and Firm Performance Evaluation

Market ratios assist investors in forecasting their potential returns on particular investments.

The earnings may come from increased stock value or upcoming dividends. The expected future stock price and the dividends that investors can expect to receive can both be estimated using the existing earnings and distributions. Dividend yield, earnings per share, price-to-earnings ratio, and dividend payout ratio are important market ratios.

Share ownership ratio is another name for market value ratio. It is known as the stockholders' method of evaluating their current and potential investments in a company. The investors in this ratio are interested in how specific factors affect the value of their assets. Analysis of the anticipated future benefits the stockholder. The study's findings indicated that the market value per share is unaffected by returns, risks, or dividends. The findings did show a substantial correlation between share prices and cash flow, though. In his 2005 study, AL Kurdi examined the potential of available accounting data to forecast share prices for a sample of 110 Jordanian public businesses listed on the Amman Security Exchange between 1994 and 2004. The findings showed that there is a correlation between the share of insurance public businesses and their released accounting information. The findings showed that market information, as opposed to accounting information, is better at forecasting share prices. For the year 2003, the Amman

Security Exchange listed 40 Jordanian public businesses as a sample for the study. The findings indicated that the market price per share and the ratios of net profits to equity, net profits to total assets, and dividends to net profits all have a positive, statistically significant association. Additionally, a significant negative correlation between the market price per share and the ratios of fixed assets to total assets, debtors to total cash sources, and wages to total expenses was also demonstrated by the results.

Profitability Ratio and Firm Performance Evaluation

Profitability ratios gauge a company's capacity to turn a profit in relation to the costs that go along with it. A higher profitability ratio than in the last financial reporting period indicates that the company's financial situation is getting better. To evaluate how profitable a company is in comparison to its rivals, a profitability ratio can also be compared to the ratio of another similar organization. The return on equity ratio, return on assets, profit margin, gross margin, and return on capital employed are a few instances of significant profitability ratios.

All company endeavors must prioritize profitability because without it, they cannot sustain themselves over the long term. As a result, estimating future profitability and measuring present or historical profitability are crucial. The most crucial indicator of a company's success is its ability to be profitable; a company that is not lucrative cannot continue. Because it gauges performance, success, and improves the firm's reputation, profitability of the firm plays a crucial part in the structure and development of the firm. Profitability acts as a crucial gauge of economic performance since it offers a concise assessment of a company's success or failure. As a result, a highly lucrative company can provide its owners with a sizable return on their investment. The capacity of a business to make more money than it spends relative to its

capital base is what is known as profitability (Agbata et al, 2021). Profitability was also described by Owolabi and Obida (2012) as the capacity of an enterprise to generate profits from all of its commercial operations. It gauges how effectively management uses organizational resources to advance the enterprise. It is possible to think of profitability as a relative concept that may be measured in terms of profit and its relationship to other factors that can have a direct impact on the profit. The relationship between income and a balance sheet metric that shows the relative ability to generate income from assets is known as profitability. Profitability is assessed in relation to the magnitude of net accounting profit (return on asset, return on capital employed, return on equity and others). Therefore, a stable and successful business is better suited to withstand shocks and contribute to the stability of the nation's economy in general.

Profitability ratios serve as gauges of a company's general effectiveness. It is frequently applied as a gauge of the company's earnings over a given time period based on its level of sales, assets, capital employed, net worth, and earnings per share. The firm's earning potential is measured by its profitability ratios, which are viewed as a sign of its expansion, success, and management. For instance, profitability ratios are important to creditors as they show whether the business can pay its interest obligations. Profitability also interests shareholders. This shows their investments' progress and rate of return. Profitability ratios examine how much profit was made in relation to sales, total assets, and net value of companies to determine how well a company is operating. According to Okwuosa (2005), an analysis of the income statement and balance sheet's profitability ratios is used to gauge a company's profitability. The two crucial reports that display the company's profit and net worth are the income statement and balance

sheet (currently referred to as Statement of Comprehensive Income and Statement of Financial Position, respectively). Its studies demonstrate how successfully the business is performing in terms of earnings relative to sales. It also demonstrates how effectively the assets are generating income. Discuss the profitability ratios measures of margins and returns, including gross, operating and/or net profits, the ROA ratio, the ROE ratio, and the ROCE ratio (Thachappilly, 2009). However, he clarified that the surplus created by sales over costs is what determines gross profit. So, gross profit margin is calculated as gross profit divided by net sales or revenue. Additionally, operating profits are calculated by subtracting marketing, administrative, and R&D expenses from the gross margin. Nevertheless, He clarifies that Operating Profit Margin is determined by dividing Operating Profit by Net Sales or Revenue. The three categories of return on resources used, including ROA, ROE, and ROCE, are also explained. Initial Return on Assets = $\text{Net Profit} / (\text{Total Assets at Period's Beginning} + \text{Total Assets at Period's End}) / 2$. The average total assets used during the course of the year serves as the denominator. Return on Equity is calculated as Net Profit divided by (shareholders' equity at the start of the year plus shareholder equity at the end of the year) divided by two. Return on Capital Employed (ROCE) ratio: $\text{Net Profit} / (\text{Average Shareholders' fund})$.

Debt Equity Ratio and Firm Performance Evaluation

Debt equity ratio shows how efficient the organization uses other people's money and whether it is using a lot of borrowed money. It checks the financial structure of the business by comparing debt against total capital, against total assets and against owners' funds. The ratio helps to check how "leveraged" a company is, and also the financial maneuverability of the company in difficult times. The ratio tells a lot about the business. It is calculated by taking the

debt owed by the company and divided by the owner's equity, also known as capital (Ndim, 2022).

2.2 Theoretical Framework

2.2.1 Stakeholder Theory

Stakeholder Theory was propounded by Edward R Freeman in 1983. It argues that there are other parties involved in a business organization which include employees, customers, suppliers, financiers, communities, governmental bodies, political groups, trade associations, and trade unions. And their interest must also be satisfied. It posits that companies should align the interest of the shareholders and other corporate stakeholders as one. This theory is related to this study as the stakeholders assess the performance of the firms using financial ratios. Moreover, the effect of financial ratio on firm performance will directly affect the decisions made by the stakeholders of the company, and will also give them an insight on the financial performance and position of the firms.

2.2.2 Agency Costs Theory

The agency cost approach differs from the traditional approach mainly in the sense that it explicitly recognizes the firm as a collection of groups of individuals with conflicting interests and self-seeking motives. Under the agency theory, these behavioral implications cause individuals to maximize their own utility instead of maximizing the firm's wealth. According to Jensen–Meckling (1976), agency problems in corporations primarily arise from external debt and external equity. Agency theory underpins the relationship between the principal and the agent. Within the context of the firm, agency theory is primarily concerned with owner-manager

relationship and with the need for shareholders to monitor management behaviour. This need arises due to the separation of ownership and control and the associated conflicts of interests that arise between shareholders (principals) and managers (agents). The agency-related rationale for paying dividends is based on the idea that monitoring of the firm and its management is helpful in reducing agency conflicts and in convincing the market that the managers are not in a position to abuse their position. Some shareholders may be monitoring managers, but the problem of collective action results in too little monitoring taking place.

Easterbrook (1984) suggests that one way of solving this problem is by increasing the payout ratio. When the firm increases its dividend payment, assuming it wishes to proceed with planned investment, it is forced to go to the capital market to raise additional finance. This induces monitoring by potential investors of the firm and its management, thus reducing agency problems. Rozeff (1982) develops a model that underpins this theory, called the cost minimization model. The model combines the transaction costs that may be controlled by limiting the payout ratio, with the agency costs that may be controlled by raising the payout ratio. The central idea on which the model rests is that the optimal payout ratio is at the level where the sum of these two types of costs is minimized.

2.3 Empirical Framework

The effect of various financial ratios on company financial performance was studied by Oruc and Erdogan (2015). The purpose of this study was to determine the impact on the corporate financial performance to the several financial indicators. Companies that are traded continuously in Borsa İstanbul-30 (BIST-30) between 2002-2013 periods were analyzed in this study for this purpose. Current ratio, earnings per share, leverage ratio, firm size and market

value to book value ratio were used as independent variables. Net profit margin was used as dependent variables. The relationship between variables was analyzed by using panel data. According to the results of analysis, there was a positive and significant relation between corporate performance (t-period) and current ratio and corporate size (t- period) and there is a negative and significant relation between corporate performance (t-period) and leverage ratio (t-period).

The elements that affect the financial performance of listed food and beverage firms in Nigeria were identified by Eitokpa (2015). The literature of earlier research was explored for the dependent and independent variables of the study. Leverage is calculated as total debt divided by total assets, while intangibles represent the total cost required to acquire the assets. The liquidity ratio is calculated as current assets divided by current liabilities. Data on ROA, business size, firm age, leverage, intangible assets, and liquidity ratio were taken from public annual reports of five out of nine (9) of these firms from 2004 to 2013. The study employed a correlation research approach. Firm age, leverage, and liquidity ratio were found to be factors in the fixed effect regression model's results that determined the financial performance of listed foods and beverage companies. Data from all 33 companies listed on the Ghana Stock Exchange were used by Ware (2015) to analyze the relationship between liquidity and profitability and its impact on profitability in a challenging economic environment. The study's findings were obtained using descriptive analysis, and it was concluded that managers can raise profitability by implementing a good credit policy, a short cash conversion cycle, and a rise in current ratios. Liquidity, as measured by the companies' Cash Conversion Cycle, Average Collection Period, and Average Payment Period, has no statistically significant impact on profitability.

Hussaini (2016) investigated corporate liquidity management, which was crucial in preserving the company's financial health during typical commercial operations from 2009 to 2014. The study's data came from the annual reports and financial statements of the companies. The data was empirically validated between the dependent and independent variables after the OLS regression was run to ensure the validity of statistical inferences. Robust OLS was used to assess the study's model using multiple regressions. The analysis's findings showed that quick ratio, accounts payable, IFRS, firm size, and ROA of listed food and beverage firms in Nigeria all had strong positive relationships, whereas accounts receivable was found to have an inversely significant relationship with ROA of listed food and beverage firms in Nigeria.

Nwankwo (2018) researched on the effect of accounting ratios on the financial performance of selected firms on brewery industry in Nigeria. One of the specific objective was to appraise the effect of dividend per share on market value of brewery firms in Nigeria. The research adopted ex-post facto research design covering the period of ten years, 2007-2016. Secondary data were collected from annual report and accounts of selected brewery firms quoted in the Nigeria Stock Exchange. The data were analyzed using multiple linear regression technique. Findings indicate that Dividend per Share had positive and significant effect on market value while return on equity has positive and insignificant effect on market value of firms. The study hereby recommended that firms should enhance both their Dividend per Share and return on equity to grow the market values of brewery firms in Nigeria.

The authors of this research paper, Maglad, Shaheen and Samkari (2019), examined the financial performance of the entire business before deciding to change its status from private to public and list it on the stock market. Public organizations typically have higher profitability

ratios than private businesses, such as ROA and ROE. Additionally, it appears that the price of crude oil has a substantial impact on public companies' financial performance, as the trend in their revenue is directly correlated with that of oil prices.

Almansoori et al. (2021) looked into how social media platforms affected the hotel industry. The survey's results showed that social media is significantly contributing to the expansion of hotels and resorts. In order to prevent discrepancies in the social networking platform, strict tools should be applied. Social media helps the hotel industry grow its revenue at a low cost of marketing, but it also has drawbacks that result in declining revenue.

Alkhyeli et al research in 2021 focused on Pfizer's financial situation. The study used the ratio analysis approach to ascertain the company's position from 2017 to 2020. Among the ratios looked at were those for profitability, debt, cash flow, and liquidity. Pfizer's results were revealed by the ratios, which show that the company's performance is typical when compared to the market. The organization was exceptional in a few areas. Due to weak liquidity ratio, Pfizer's performance made it clear that company lacked the funds to repay its debts. However, the company's profit margin was large, which convinced any investor to invest in the business.

The study of Ndum (2022) determined the effect of financial ratio analysis on performance of Food and Beverages companies in Nigeria, using market ratio, profitability ratio and return on assets. Ex-post facto research design was employed in the study. In this study, simple linear regression was utilized. The data were obtained from the annual reports of the firms under study for a six (6) year period covering from 2015-2020. The result of the regression analysis reveals that market ratio and profitability ratio significantly affect return on assets of food and beverage companies in Nigeria at 5% level of significance. It was recommended that company

management should utilize its cost efficiently in generating more income for the company, thus maximizing shareholders' wealth through improved earnings per share.

BAYELSA STATE POLYTECHNIC, ALEIBIRI

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter is concerned with considering the methodology adopted in this study. It takes a critical look into the research design, characteristics of the study population, sampling design & procedures, instrument of data collection, operational measure of variables and method of data analysis employed in this study.

3.1 Research Design

This research design combines theoretical consideration with empirical observation and maximum information from the available data. This study relied on historical time series for its secondary data which formed the entire source for this study. Therefore, in relation to this study, ex-post facto research design is used in this study to analyze the corporate performance of Nigerian food and beverage companies.

3.2 Characteristics of the Study Population

The population comprises publicly traded food and beverage businesses on the Nigerian Stock Exchange that have to have consistently produced their annual reports during the time period of (2016 - 2021). Food and beverage businesses are all engaged in the preparation, packaging, and distribution of raw food materials. They contain packaged goods, alcoholic and non-alcoholic beverages, as well as fresh, cooked delicacies. Therefore, everything other than

medications intended for human consumption goes through this industry. The food and beverage company was chosen for this research because of the sizeable growth of the company as a whole, its sustained profitability and the possible change of the company. In addition, the rapid growth and development that is on-going in the industry as a result of high priority given by the government to the manufacturing sector is also a reason for the choice of the industry. The industry consists of twenty-five (25) quoted companies in Nigeria stock exchange (Wikipedia, 2022).

3.3 Sampling Design and Procedures

The sample size of this study was selected using purposive sampling techniques based on the availability of data. Twenty (20) sampled quoted food and beverage companies listed with the Nigerian Stock Exchange were used to ensure statistically valid generalization. Data were extracted from annual reports of the sampled companies. Therefore, the sample size for this study is twenty (20).

3.4 Instrument of Data Collection

Secondary data relating to the annual reports of the sampled food and beverage companies in The Nigerian Stock Exchange as at September 2022 served as the sole data collection instrument. In addition to this, secondary data from data sources- The Nigerian Stock Exchange Factbook, Cash Craft Website and Capital Asset Limited Website were obtained.

3.5 Operational Measure of Variables

Dependent Variable

The dependent variable of the study is (Corporate Performance) Return on asset was used to proxy firm's corporate performance. ROA is measured as earnings before interest and tax scaled by total asset.

Independent variables

MTR= Market ratio. Earnings per share are used as a proxy for market ratio.

$$\text{Earnings per share} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Common Shares}}$$

PFR = Profitability ratio. Return on equity is used as a proxy for profitability ratio.

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Decision Rule

Accept the null hypothesis, if the P-value of the test is greater than 0.05. Otherwise reject.

3.6 Method of Data Analysis

The study employs simple linear regression models using a set of cross-sectional data as technique of analysis. Multiple linear regression models are very important in investigating the predictable power of the independent variable on the dependent variable.

Model of Specification

In the light of the above methodology and theoretical framework employed to capture corporate performance through ratio analysis of food and beverage companies in Nigeria, a simple linear regression model using a set of cross-sectional data was developed for the study.

The study model is in the following form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \mu$$

Where:

Y = Performance (dependent variable)
X = Financial Ratio (/independentVariable)
 β_0 = constant term (intercept)
 β_1 - β_2 = Coefficients of performance
 μ = Error term (stochastic term)

Explicitly, the equation can be defined as:

$$\text{Return on assets} = f(\text{Financial Ration analysis}) + \mu$$

Representing the equations with the variables of the construct, hence the equations below are formulated: Specifically:

ROA = $\alpha + \beta_1$ MKR	+ μ	-	-	-	-	-	-	-	i
ROA = $\alpha + \beta_1$ PFR	+ μ	-	-	-	-	-	-	-	ii
ROA = $\alpha + \beta_1$ DER	+ μ	-	-	-	-	-	-	-	ii

Where; α = Constant

β_1 = Coefficients of explanatory variables μ

= Error term over cross-section and time

ROA = Return on Assets (dependentvariable)

MTR= Market ratio (independent variable)

PFR = Profitability ratio (independent variable)

DER = Debt Equity ratio (independent variable)

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter deals with the presentation and analysis of data collected in preceding chapter and the subsequent test of hypotheses formulated in chapter one. This chapter goes further to discuss the findings from this study.

4.1 Data Presentation

Descriptive Statistics

Descriptive analysis for the sample is performed on the dependent variable (returns on assets) and the independent variables (MTR, DER, PFR). The analysis examines the mean and standard deviation of the data.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	47.1254	128.03253	230
FR	319.3942	816.06395	230

Source: E-views 10.0 Regression Output

Table 4.1 illustrates in the descriptive statistics that the return on assets of the selected companies analysed is N47.1254, while standard deviation is N128.03253.

Average financial ratio of the listed companies analysed is N319.3942, while standard deviation is N816.06395

4.2 Test of Hypotheses

Test of Hypothesis 1

Ho 1: There is no significant effect of market ratio on financial performance of selected food and beverage companies in Nigeria.

Ha 1: There is significant effect of market ratio on financial performance of selected food and beverage companies in Nigeria.

Table 2: Panel Least Square Regression analysis testing the relationship between Market Ratio and Return on Assets

Dependent Variable: ROA

Method: Least Squares

Sample period: 2016 - 2021

Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.412527	0.186928	3.772251	0.0196
EPS	0.461007	1.040364	9.443121	0.0000
R-squared	0.346792	Mean dependent var		0.491667
Adjusted R-squared	0.291510	S.D. dependent var		0.123841
S.E. of regression	0.135181	Akaike info criterion		-0.903209
Sum squared resid	0.073095	Schwarz criterion		-0.972622
Log likelihood	4.709626	Hannan-Quinn criter.		-1.181077
F-statistic	13.16356	Durbin-Watson stat		1.512538
Prob(F-statistic)	0.000000			

Source: E-Views 10.0 Regression Output 2022

Interpretation of Regression Result

According to the result of the analyzed data in table 2, the function of Simple Linear Regressions was built in the model below:

$$ROA = 0.412527 + 0.461007EPS$$

Table 2 displays the findings of the pooled regression investigation into the functional link between ROA and Market Ratio (determined by Earnings per Share). As evidenced by the t-statistics = 9.443121 and p-value = 0.0000, the findings showed that EPS has a direct/positive association with ROA of quoted food and beverage companies in Nigeria. The outcome also demonstrated that, at a 5% level of significance, EPS is statistically significant in explaining changes in ROA. The model's overall statistical significance was tested, and the findings showed that it is statistically significant at the 5% level of significance with the Prob(F-statistic)= 13.16356. The 1.512538 Durbin-Watson statistics demonstrated that serial correlation was not a concern with the data.

Invariably, this study submits that there is a positive and statistically significant relationship between EPS and ROA of food and beverage companies in Nigeria at 5% level of significance.

Test of Hypothesis 2

Ho 2: Debt-equity ratio has no significant effect on financial performance of selected food and beverage companies in Nigeria.

Ha 2: Debt-equity ratio has significant effect on financial performance of selected food and beverage companies in Nigeria.

Table 3: Panel Least Square Regression analysis testing the relationship between Debt-Equity Ratio and Return on Assets

Dependent Variable: ROA
Method: Least Squares
Sample period: 2016 - 2021
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.496436	0.131602	3.772251	0.0196
ROE	0.006733	0.167788	5.440131	0.0017
R-squared	0.300402	Mean dependent var		0.491667
Adjusted R-squared	0.249497	S.D. dependent var		0.123841
S.E. of regression	0.138431	Akaike info criterion		-0.855689
Sum squared resid	0.076652	Schwarz criterion		-0.925103
Log likelihood	4.567067	Hannan-Quinn criter.		-1.133557
F-statistic	6.001610	Durbin-Watson stat		1.314084
Prob(F-statistic)	0.001712			

Source: E-Views 10.0 RegressionOutput, 2022

Interpretation of Regressed Result

$$ROA = 0.496436 + 0.006733ROE + \mu$$

The model above examined the relationship between ROA and debt-equity ratio (measured with return on equity). The findings indicate a strong positive link between ROE and ROA. The coefficients and probability of the t-statistic in table 3—1=0.006733, Prob =0.0017—show that

this is the case. The likelihood of the ROE t-statistic is less than the permitted 5 percent. The amount of variations brought about on ROA by the explanatory variable (ROE) is further demonstrated by the R-squared, which is the coefficient of determination, to be 0.300402. According to this, ROE is responsible for around 30% of the variation in ROA, while the remaining 70% is explained by explanatory factors that are not included in this model and are reflected by the error term. Thus, the result indicates that the stated independent variable in the model is good enough to explain ROA. The significance level is 0.0017; this in essence shows that there is a significant relationship between the variables.

Decision

Considering the F-statistic = 6.001610 and its associated p-value of 0.001712, hence, we reject the null hypothesis and accept the alternative hypothesis, which upholds that there is a significant positive relationship between debt-equity ratio and return on assets of listed food and beverage companies in Nigeria at 5% level of significance.

Test of Hypothesis 3

Ho 3: There is no significant relationship between profitability ratio and financial performance of selected food and beverage companies in Nigeria.

Ha 3: There is significant relationship between profitability ratio and financial performance of selected food and beverage companies in Nigeria.

Table 4: Panel Least Square Regression analysis testing the relationship between Profitability Ratio and Return on Assets

Dependent Variable: ROA
Method: Least Squares
Sample period: 2016 - 2021
Included observations: 6

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.496436	0.131602	3.772251	0.0196
ROE	0.006733	0.167788	5.440131	0.0017
R-squared	0.300402	Mean dependent var		0.491667
Adjusted R-squared	0.249497	S.D. dependent var		0.123841
S.E. of regression	0.138431	Akaike info criterion		-0.855689
Sum squared resid	0.076652	Schwarz criterion		-0.925103
Log likelihood	4.567067	Hannan-Quinn criter.		-1.133557
F-statistic	6.001610	Durbin-Watson stat		1.314084
Prob(F-statistic)	0.001712			

Source: E-Views 10.0 Regression Output, 2022

Interpretation of Regressed Result

$$ROA = 0.496436 + 0.006733ROE + \mu$$

The model above examined the relationship between ROA and profitability ratio (measured with return on equity). The findings indicate a strong positive link between ROE and ROA. The coefficients and probability of the t-statistic in table 3— $1=0.006733$, Prob = 0.0017 —show that this is the case. The likelihood of the ROE t-statistic is less than the permitted 5 percent. The amount of variations brought about on ROA by the explanatory variable (ROE) is further

demonstrated by the R-squared, which is the coefficient of determination, to be 0.300402.

According to this, ROE is responsible for around 30% of the variation in ROA, while the remaining 70% is explained by explanatory factors that are not included in this model and are reflected by the error term. Thus, the result indicates that the stated independent variable in the model is good enough to explain ROA. The significance level is 0.0017; this in essence shows that there is a significant relationship between the variables.

Decision

Considering the F-statistic = 6.001610 and its associated p-value of 0.001712, hence, we reject the null hypothesis and accept the alternative hypothesis, which upholds that there is a significant positive relationship between profitability ratio and return on assets of listed food and beverage companies in Nigeria at 5% level of significance.

4.3 Discussion of Findings

Table 2 displays the findings of the pooled regression investigation into the functional link between ROA and Market Ratio (determined by Earnings per Share). As evidenced by the t-statistics = 9.443121 and p-value = 0.0000, the findings showed that EPS has a direct/positive association with ROA of quoted food and beverage companies in Nigeria. The outcome also demonstrated that, at a 5% level of significance, EPS is statistically significant in explaining changes in ROA. The result of the first hypothesis of this study therefore reveals a positive and significant relationship between market ratio and return on assets in the Nigerian food and

beverage sector. This result aligns with the one reported by Agbata et al., (2021) who found a positive relationship between market ratio and return on assets.

With respect to debt-equity ratio and return on assets, table 3 examined the relationship between ROA and debt-equity ratio. The findings indicate a strong positive link between debt-equity ratio and ROA, as evidenced by the coefficients and probability of the t-statistic in table 3— $t=0.006733$, Prob =0.0017. The result of the second hypothesis of this study therefore reveals a positive and significant relationship between debt-equity ratio and return on assets in the Nigerian food and beverage sector. This result aligns with the one reported by Archibong (2013) who found a positive relationship between debt-equity ratio and return on assets.

Furthermore, the result of the third hypothesis is in line with the result reported by Ndum (2022) who reported a positive relationship between profitability ratio and return on assets. Similarly, the result supports the one reported by Bhutto et al., (2011) who found a positive relationship between profitability ratio and return on assets.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

In this chapter, focus shall be on summarizing the findings of this study, drawing conclusion and making recommendations based on the findings of the study.

5.1 Summary of Findings

In relation to hypothesis one, the result of the of this study reveals a positive and significant relationship between market ratio and return on assets in the Nigerian food and beverage sector. This result aligns with the one reported by Agbata et al., (2021) who found a positive relationship between market ratio and return on assets.

With respect to debt-equity ratio and return on assets, the findings indicate a strong positive link between debt-equity ratio and ROA. The result of the second hypothesis of this study therefore reveals a positive and significant relationship between debt-equity ratio and return on assets in the Nigerian food and beverage sector. This result aligns with the one reported by

Archibong (2013) who found a positive relationship between debt-equity ratio and return on assets.

Furthermore, the result of the third hypothesis is in line with the result reported by Ndum (2022) who reported a positive relationship between profitability ratio and return on assets. Similarly, the result supports the one reported by Bhutto et al., (2011) who found a positive relationship between profitability ratio and return on assets.

5.2 Conclusion

This study investigated the connection between corporate performance of Nigerian food and beverage companies and financial ratio analysis. The dependent variable, corporate performance, was measured using return on assets while the independent variable, financial ratio analysis, was measured with market, debt-equity and profitability ratio. Simple linear regression was used in this investigation. The information was gleaned from the annual reports of the companies under investigation over a six-year period, from 2016 to 2021. The outcome of the regression analysis shows that, at the 5% level of significance, the market ratio and profitability ratio of listed food and beverage firms in Nigeria strongly relate with return on assets.

5.3 Recommendations

Based on the findings of this study, the following recommendations are proffered:

- i. The management of food and beverage companies should make optimal use of their costs to increase revenue for the business, maximizing shareholder value through increased earnings per share.
- ii. Because the profitability ratio is one of the key ratios used to gauge a company's financial health, food and beverage companies should lower their expenses as a percentage of total sales while maintaining their total cash fixed costs in order to boost their profitability margin.
- iii. In order to retain a favourable significant effect on financial performance, the management of Nigerian food and beverage companies should examine an appropriate combination of current ratios.
- iv. Managers should exercise extreme caution when using long-term debt instruments, attempting to discover the best and most ideal combination of long-term debt and equity that will have a beneficial influence on the firm's value.
- v. Food and beverage companies should use debt minimization measures to improve their company's success.

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