



Assessing the Financial Statement (Ratios) of Anglogold-Ashanti Limited, Ghana

Regina Wompakeah Bagina^{1*}

¹Department of Accounts, Faculty of Mathematical Sciences, University for Development Studies,
Tamale, Ghana.

Author's contribution

The sole author designed, analysed, interpreted and prepared the manuscript.

Article Information

DOI: 10.9734/AJEBA/2020/v14i430202

Editor(s):

(1) Dr. Ivan Markovic, University of Nis, Serbia.

Reviewers:

(1) Aondoseer Abeh, Universiti Teknologi Malaysia, Malaysia.

(2) Smail Ukav, Adiyaman University, Turkey.

(3) R. Shenbagavalli, iNurture Education Solutions Pvt Ltd., India.

Complete Peer review History: <http://www.sdiarticle4.com/review-history/49463>

Original Research Article

Received 10 April 2019

Accepted 14 June 2019

Published 10 April 2020

ABSTRACT

This study assessed the financial position of Anglogold –Ashanti Ltd, Ghana by conducting various financial ratio analyses. The study used time series data for a period of 7 years (2008/09 to 2013/14) of Anglogold Ashanti Limited. The data was analysed using standard tool ratio analysis. This was applied to evaluating the financial performance. Among the ratios used are the Liquidity ratio, current or acid test ration, profitability ratio, gross margin, return on equity, debt to equity. Tables were used in the data presentation. The study findings revealed that both current and the quick ratios has a fluctuating trend of continues increase for the study period (2009-2011), that is (1.68, 1.93, 1.33, 1.77, 0.53, 0.53) and (0.90, 0.89, 0.62, 1.06, 0.65, 0.67 0.84). Also, the higher the ratio the more solvent the business is. Although, the company's ratio was high it did not always imply that there was solvency but also indicated that the company was holding excess liquid funds. The quick ratio was also in a fluctuating trend throughout the period 2008 – 14. The company liquidity position was not far from the normal standard; to some extent it was satisfactory. The total assets turnover ratio also indicated an increasing trend from the year 2008 – 14(0.56, 0.62, 0.73, 0.54, 0.56, 0.49 and 0.39). Based on the findings, the study concluded that, the company's overall position is not at a good position, particularly the last year under review due to decreased profit level from the previous year. It is better for the organization not to diversify the funds to different sectors in the present market scenario. The study recommended the need for the company to increase its sales by more promotions and by quick movements of the finished goods.

*Corresponding author: E-mail: reginabagna@gmail.com;

Keywords: Balance sheet; financial performance; ratios; AngloGold Ltd.; Ghana.

1. INTRODUCTION

Managers around the world have a major objective to keep their firms in good financial position. They see to it that a firm's resources are put into good use. But how would the managers know if the firms are doing well and that they are managing them well? This thinking brings about the issue of analysis of financial statements of firms. Financial statement is a record that indicates the financial transaction of a business entity within a given fiscal year. Balance sheet and income statement are examples of financial statements. The balance sheet of a firm shows its assets, liabilities and net worth of the firm on a stated date. On the other hand, income statement (profit and loss account) shows how the net income of the firm is arrived at over a stated period [1]. It is the evaluation of these statements or reports that constitute the subject of financial analysis; and which serves as the basis for management information in assessing the strength of the financial position of the firm. Financial analysis is central to the budgeting, financing and investment decisions of firms and therefore has to be handled with caution.

The information found on the financial statements is valuable to the company's managers, stock and bond analysts, bank loan officers, and competitors. The outcome of the analysis of financial statements of a firm reflects the state of the economy, Michael [2]. For example, a firm with high debt ratios may be attractive to investors at the end of a recession. That is because as the economy begins to grow, increased sales will generate cash to pay interest, leaving high margin of profits. On the other hand, high debt ratios may not be attractive to investors when the economy is not doing well, and there is an increase in sales will generate cash to pay interest, leaving the firm in jeopardy because it is running at a loss [1].

The analysis from above shows how important the subject of financial analysis is to the managers. Therefore, the knowledge of financial analysis is a must have for all managers if they are to achieve their major objective of ensuring sound financial positions of the firms. Successful financial analysis and planning require an understanding of a company's external and internal environments. The internal environment includes factors within the organization that impact the approach and success of the company's operations. The company's internal

environment includes items that management has control over, such as organizational structure, employees' motivation and productivity, cost control, and the company's plant and operations. Managing the strengths of your internal operations and recognizing potential opportunities and threats outside of your operations are keys to business success, Drake [1]. The external environment consists of a variety of factors outside the company's door that are typically beyond the control of the management of the company. External factors that affect a firm's profitability include inflation, interest rates, exchange rates, and government policy. Sales are affected in one way or the other by the state of the economy, management's ability to handle growth in a most efficient manner, and the quality of marketing the company's product. Pricing decisions are also influenced by the state of the economy, actions by competitors, and the firm's production costs [1]. The joint impact of the external and internal environment on a firm should be reflected in its financial statements because sales and pricing affect the financial statement analysis through the valuation of the company's stock price to its revenues. Thus, the price-to-sale ratio is an indicator of the value placed on each cedi of a company's sales or revenues. These financial statements analyses are good ways to assess the success or failure of the company's strategies and operations. The study seeks to identify the strength and weakness of AngloGold Ashanti, determine the liquidity, profitability and efficiency position of the company and the financial status of the company.

2. LITERATURE REVIEW

2.1 Financial Statement

The basis of financial planning analysis and decision making is the financial information (Statements). Financial statements are required to forecast, compare and assess a firm's earning ability. It is also required to help in economic, investment and financing decision-making. The financial information of an enterprise is confined in the financial statements. The use of financial statement analysis in investment decision has been addressed by a series of authors. (Ohison 1999)

According to Gautam, U. S. [3] Financial Statement is largely explained as financial

information which is the information relating to financial position of any firm in a capsule form.

According to Ohison (1999) a financial statement is a written report that summarizes the financial status of an organization for a stated period of time. It includes an income statement and balance sheet or statement of the financial position describing the flow of resources, profit and loss and the distribution or retaining of profit.

According to Pandey [4] profitability is the ability of an entity to earn income. It can be assessed by calculating various significant methods including the ratio of net sales to assets, the rate earned on total assets etc. According to Meigns et al. [5] financial Statement simply means a declaration of what is believed to be true and which, communicated in terms of monetary unit. It describes certain attributes of a company that is considered to fairly represent its financial activities. Meigs and Meigs [6] stated that the rate of return on investment (ROI) is a test of management's efficiency in using available resources. So, with the above information one can say that, for a business to remain profitable there should be a thorough study of financial statement so as to assess management efficiency.

2.2 Objective of a Financial Statement Analysis

According to Meigs and Meigs [6], the purpose of financial statement analysis is to provide information about a business unit for decision making purpose and such information need not to be limited to accounting data. While ratios and other relationships based on past performance may be helpful in predicting the future earnings performance and financial health of a company, we must be aware of the inherent limitations of such data. According to Meigs and Meigs [6], the key objectives of financial analysis are to determine the company's earnings performance and the soundness and liquidity of its financial position. In periods of recession when business failures are common, the balance sheet takes on increased importance because the question of liquidity is uppermost in the minds of many in the business community. However, when business conditions are good, the income statement receives more attention. Nevertheless, a financial analyst has to grapple on the above complexities of using financial statement analysis to achieve a specific purpose.

2.3 Classification of Financial Statement

According to Diamond [7], all watchful business owners have an innate sense of how well their business is doing. Almost without thinking about it, these business owners can tell you any time during the month how close they are to butting budgeted figures. Certainly, cash in bank plays a part, but it is more than that. They are three types of financial statements. Each will give important information about how efficient and effective the business is operating. Income statement, balance sheet and statement of cash flow are the basic and the most important financial statements which interprets the quantitative data of a company's performance, [7]. Whereas footnotes have the qualitative explanation for the major transactions and the accounting policy adopted while formulating the financial statements. The publicly traded companies publish their financial statements quarterly.

2.4 The Statement of Retained Earnings

The statement of retained earnings shows the breakdown of retained earnings. Net income for the year is added to the beginning of year balance, and dividends are subtracted. This results in the end of year balance for retained earnings. Remember that expenses, revenues and dividends impact retained earnings. Since net income equals revenue minus expenses, we need to include dividends when computing end of period retained earnings, plus net income and minus dividends.

2.5 Financial Performance

In the financial literature, a lot of importance has been devoted to financial ratios for assessing the financial health of a firm, financial fitness will determine the repayment capacity of the debt sought by any business enterprise. A study by William (2010) on ratios of 79 firms ratios that have influence on the success or realization and failure of the concerned companies. The significant ratios recognized by the researcher were; Cash flow to total debt, Net income to total assets, Total debt to total assets, Working capital to total assets, Current ratio.

According to Beaver the unsuccessful firms had more debt and less return on assets. They had less cash but more receivables and low current ratio. They also had less inventory. In the Indian context, Gupta [8] attempted a

refinement of Beaver's process with the aim of constructing a forewarning system of corporate sickness. A simple non-parametric test of assessing the relative variation power of the various financial ratios was used. The research covered a cross section of companies sinking below various industries.

Fifty-six (56) ratios were tested for the period of twelve (12) years (1962 to 1974). It was established that earnings before depreciation, interest and taxes (EBDIT) to Sales, operating cash flow (OCF) to Sales, EBDIT/Total assets including accumulated depreciation, OCF/Total assets including accumulated depreciation, EBDIT/(Interest + 0.25 Debt) ratios have high degree of predictive power.

Among the balance sheet ratios, only Net worth/Debt, including both short term and long-term debt and all outside liabilities/Tangible assets were found to have some influence in predicting possible business failure.

An important outcome of the research was that weak equity base can lead to failure.

Another significant study was carried out by Altman [9] which was referred to as Multiple Discriminant Analysis (MDA). After studying 66 firms, Altman established that a set of ratios can be created or developed which has influence and has the power to predict failure of a firm. Thus, it has the failure predictive power. Altman developed a discriminant function, covering these ratios. They are; Net working capital/total assets (percentage), Retained earnings/total assets (percentage), EBIT/total assets (percentage), Market value of total equity/book value of debt (Percentage), Sales/total assets (times).

The mixed result of these five ratios was Z score, on the basis of which the firms can be considered as either financially sound or otherwise. Altman found that a score above 2.675 was believed to be financially sound. The score below this, show overall financial weakness.

Many studies have taken position on the issues of methods, tools, techniques and practices of business performance appraisal of firms, [8,7], [10]. This is critical, since this system plays a significant role in developing strategic plans and evaluating the successes of the firm. A research has been undertaken by several organisations

including premier business schools, consultant firms and others.

2.6 Asset Utilization

Referring to Ellis [10], asset utilization measures which assets are capable of producing and what they actually produced. Conversely, asset dis-utilization represents losses in revenue in relation to the investment that may be attributable to the inefficient use of assets. Fleming, Heaney and McCosker [11] pointed out that asset dis-utilization may increase agency costs because managers do not act in the best interests of the owners. Okwo [12] conducted a research on investment in fixed assets and firm profitability and it was found that the relationship is positive but the result was not statistically significant. Xu and Xu [13], assessed the optimal allocation of assets structure and business performance, and the finding showed statistically significant relationship between assets structure and business performance. Furthermore, Jose et al. [14], Wu et al. [15] and Seema and Surendra, [16] pointed out that asset utilization has a significant effect on firm's-financial-performance.

2.7 Analyzing Ratios

There is no universally agreed-upon list regarding the type, calculation methods and number of financial ratios used in earlier studies. For instance, Gombola and Ketz [17] used 58 ratios to detect financial ratio patterns within retail and manufacturing organizations, while Ho and Wu [18] used 59 ratios, Cinca, Molinero, and Larraz [19] used 16 ratios, Uyar and Okumus [20] used 15 ratios, and Karaca and Çigdem (2012) used 24 ratios. However, most text books and research studies published in reputable journals provided somewhere in between 20 to 30 of the more commonly used ratios, which are often found to be sufficient to evaluate the performance of a firm.

2.8 Liquidity Ratios

Liquidity reflects the ability of a company to meet its short-term obligations using assets that are most readily converted into cash. Assets that may be converted into cash in a short period of time are referred to as **liquid assets**; they are listed in financial statements as current assets. Current assets are often referred to as working capital because these assets represent the

resources needed for day-to-day operations of the company's long term, capital investments. Current assets are used to satisfy short term obligations, or current liabilities. The amount by which current assets exceed current liabilities is referred to as **net working capital**. The higher the liquidity ratios, the more liquid the company and the less likely the company experience financial distress in short-term basis. To measure the liquidity of a company the following ratios can be calculated:

Current Ratio: The current ratio is a liquidity and efficiency ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. The current ratio is an important measure of liquidity because short-term liabilities are due within the one year. It is the ratio of current assets to current liabilities.

$$\text{Mathematically: Current ratio} = \frac{\text{Current assets}}{\text{current liabilities}}$$

The ideal current ratio is 2:1 i.e. current assets must be twice of current liabilities. In case this ratio is less, then the ideal ratio of 2:1, the short-term financial position is not supposed to be very sound. And in case it is more than the ideal one, then it shows idleness of working capital.

Quick Ratio/ Acid test ratio: It is also called the Acid Test Ratio. The Quick Ratio is a much more exacting measure than the Current Ratio. By excluding inventories, it concentrates on the really liquid assets, with value that is fairly certain. It helps answer the question: "If all sales revenues should disappear, could my business meet its current obligations with the readily convertible 'quick' funds on hand?" An acid-test of 1:1 is considered satisfactory unless the majority of your "quick assets" are in accounts receivable, and the pattern of accounts receivable collection lags behind the schedule for paying current liabilities. Mathematically:

$$\text{Quick ratio} = \frac{\text{Cash} + \text{Mrketable securities} + \text{receivables}}{\text{current liabilities}}$$

2.9 Financial Leverage Ratios

The ratio used to calculate the financial leverage of a company to get an idea of the company's methods of financing or to measure its ability to meet financial obligations. Thus, it provides information on the degree of a company's fixed financing obligations and its ability to satisfy

these financing obligations. There are several different ratios, but the main factors looked at include debt, equity, assets and interest expenses. The Debt Ratio, Debt-Equity Ratio, and Equity Multiplier are essentially three ways of looking at the same thing: the firm's use of debt to finance its assets. The most well-known financial leverage ratio is the debt-to equity ratio (Total Debt to Owners Fund) that is used in the current study.

Debt-to-Total Assets: It is computed by dividing the total debt or total liabilities of the business by its total assets. This ratio shows the portion of the total assets financed by all creditors and debtors. Taking the relevant information from the Anglogold Ashanti balance sheet, the computation is done as follows:

$$\text{Debt-to-total assets ratio} = \frac{\text{debt}}{\text{total assets}}$$

Debt to Equity Ratio (DER): A measure of a company's financial leverage calculated by dividing its total liabilities by equity stockholders. It indicates a firm total debt in relation to the total cedi amount owners have invested in the firm. In other words, what proportion of equity and debt the company is using to finance its assets. It measures the long-term solvency of the firm. Normally DER of 2:3 or 0.67 is considered as satisfactory. It is calculated as:

$$\text{Debt-to-Equity ratio} = \frac{\text{total debt}}{\text{total shareholders equity}}$$

2.10 Profitability Ratios

Profitability ratios (also referred to as profit margin ratios) compare components of income with sales. They give us an idea of what makes up a company's income and usually expressed as a portion of dollar of sales. There are two types, those showing profitability in relation to sales and those showing profitability in relation to investments. It indicates a firm's efficiency of operations.

Gross Profit Margin: This ratio is the percentage of sales dollars left after subtracting the cost of goods sold from net sales. It measures the percentage of sales dollars remaining (after obtaining or manufacturing the goods sold) available to pay the overhead expenses of the company.

Comparison of your business ratios to those of similar businesses will reveal the relative

strengths or weaknesses in your business. The Gross Margin Ratio is calculated as follows:

$$\text{Gross Margin Ratio} = \frac{\text{gross profit}}{\text{net sales}}$$

(Gross profit = net sales - cost of goods sold).

The Operating Profit Margin: the ratio indicates the firm's ability to control operating expenses. It is the ratio of operating profit thus Earnings Before Interest and Tax (EBIT) to sales. This is a ratio that indicates how much of each dollar of sales is left over after operating expenses. Higher ratios in this case is better.

$$\text{Operating Profit Margin} = \frac{\text{earning before interest and tax}}{\text{sales}}$$

Net Profit Margin: a widely used measure of a company's profitability is calculated as the firm's net income after taxes divided by net sales. In addition to considering operating expenses, this ratio also indicates the ability to earn a return after meeting interest and tax obligations. This ratio is the percentage of sales dollars left after subtracting the Cost of Goods sold and all expenses, except income taxes. It provides a good opportunity to compare your company's "return on sales" with the performance of other companies in your industry. It is calculated before income tax because tax rates and tax liabilities vary from company to company for a wide variety of reasons, making comparisons after taxes much more difficult. The Net Profit Margin Ratio is calculated as follows:

$$\text{Net Profit Margin} = \frac{\text{net income}}{\text{sales}}$$

2.11 Activity Ratios

Activity ratios relates information on a company's ability to manage its resources (that is, its assets) efficiently. They measure the efficiency or effectiveness with which a firm manages its resources or assets. These are also known as turnover ratios because they indicate the speed with which assets are converted or turned into sales or generating revenues, cash, etc. from its resources. These includes debtor turnover ratio, inventory ratio and total assets turnover ratio. But in this study, Asset Turnover Ratio and Total Assets Turnover Ratio were applied to test the effectiveness of the company.

Total Asset Turnover Ratio: This ratio indicates how efficiently the firm is utilizing its assets to

produce revenues or sales. It is a measure of the dollars of sales generated by \$1 of the firm's assets. Generally, the more efficiently assets are used, the higher a firm's profits. The size of the ratio is significantly influenced by characteristics of the industry within which the firm operates. It is computed by dividing net sales by the company's total assets. It can be said that the higher the ratio, the better it is, since it implies the company is generating more revenues per unit of assets. It is calculated as:

$$\text{Total assets turnover ratio} = \frac{\text{sales}}{\text{total assets at beginning of last year}}$$

3. RESEARCH METHODOLOGY

3.1 Study Area

Headquartered in Johannesburg, South Africa, AngloGold Ashanti has a globally diverse, world-class portfolio of operations and projects. AngloGold Ashanti is the third-largest gold mining company in the world, measured by production. It has 17 mines gold mines in 9 countries, as well as several exploration programmes in both the established and new gold producing regions of the world. AngloGold Ashanti produced 3.628Moz of gold in 2016, generating \$4.08bn in gold income, utilising \$811 million capital expenditure. AngloGold Ashanti has an attributable Ore Reserve of 50.1Moz of gold and an attributable Mineral Resource of 214.7Moz. In Ghana, AngloGold Ashanti currently has two wholly owned and managed operations in Ghana – Obuasi and Iduapriem.

3.2 Research Design

The study uses time series data from for a period of 7 years (2008/09 to 2013/14) of Anglogold Ashanti Limited. The data was analysed using standard tool ratio analysis. This was applied to evaluating the financial performance. Among the ratios used are the Liquidity ratio, current or acid test ration, profitability ratio, gross margin, return on equity, debt to equity. Charts and tables were use in the data presentation.

4. RESULTS AND DISCUSSION

4.1 Introduction

The financial performance of the Anglogold Ashanti Limited was analysed using financial ratios, This was done by grouping the financial

ratios in four broad categories: Liquidity ratios, leverage ratio, profitability ratio and activity ratio as it is an important technique of financial statement analysis. They are useful for understanding the financial position of the company.

4.2 Liquidity Ratios

We considered whether the firm has the ability to meet its short-term financial obligations when they fall due using the ratios below.

Current Ratio: It is the ratio of current assets to current liabilities. This analysis is to evaluate whether the company has the ability measures a firm's ability to pay off its short-term liabilities with its current assets. It is mathematically expressed as:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{current liabilities}} \quad (1)$$

From Table 1 it has been observed that there are ups and downs during the study period. The current ratio of Anglogold Ashanti Limited is lower than the standard norm (2:1) throughout the study period and shows the company's ability to pay its current liabilities is not sound enough in all the years under study except 2011 which has meet the standard norm of (2:1). This signifies that the company was able to pay its bills efficiently in 2011. There is high modulation in liquidity ratio of the bank. Hence, the analysis gives the exact result and provides a way to the management to take remedial steps to control and improve the extreme deviations from the solvency position of the company. Compared against the work of Mahdi and Kumar (2009) which has the current ratio to be 7.41, 2.19, 4.48, 1.98, and 3.82 during 2003 of which indicates a continuous increase in both current assets and current liabilities. The higher the ratio the more solvent the business is. Although their ratio is high it is not always that there is solvency it may also indicates that the company is holding excess liquid funds.

Quick Ratio/ Acid test ratio: The ratio measures the ability of the company to meet its obligations relying solely on its more liquid Current Asset accounts such as Cash and Accounts Receivable. It is calculated as:

$$\text{Quick ratio} = \frac{\text{Cash + Mrketable securities + receivables}}{\text{current liabilities}} \quad (2)$$

The ideal quick ratio is 1:1 i.e., liquid assets must be ideally equal to the current liabilities. In case the ratio falls short of 1:1, then it depicts weak short term financial position and vice versa. The quick ratio of Anglogold Ashanti Limited for the study period almost all falls short of the standard norm except 2011. This means that the company finds it somehow difficult to turn its inventories into cash during the previous years except in 2011. This reveals the healthy sign in its solvency position because its financial position improved in last three years.

Comparing the both the quick ratio and the current ratio again with Mahdi and Kumar (2010) which has the results of quick ratio to be 7.41, 1.65, 4.35, 1.9, and 3.81. The company's present liquidity position is satisfactory since the ratios are even higher than the standard norm of 1:1. However it can also be as a result of holding excess liquid funds which is not good for a business.

4.3 Financial Leverage Ratios

The ratio helps us to determine or measure the long-term financial strength. Long term creditors like bond holders, financial institutions among others are more concern about these ratios.

Debt-to-Total Assets: This ratio shows the portion of the total assets financed by all creditors and debtors. Taking the relevant information from the Anglogold Ashanti balance sheet, the computation is done as follows:

$$\text{Debt-to-total assets ratio} = \frac{\text{debt}}{\text{total assets}} \quad (3)$$

Table 1. Liquidity ratios

Years	Current ratio	Quick ratio/ acid test ratio
2014	1.68	0.9
2013	1.93	0.89
2012	1.33	0.62
2011	2.73	1.06
2010	1.77	0.65
2009	0.53	0.67
2008	0.81	0.84

Source: Authors calculations, 2018

Anglogold Ashanti's total debt ratio has not changed in 2008 and 2009 and also in 2013 and 2014, meaning that the firm's debt load grew at approximately the same rate as its asset base. Compared to industry averages, a total-debt-to-asset ratio that is relatively high tells the financial manager that the opportunities for securing additional borrowed funds are limited, additional debt funds may be more costly in terms of the rate of interest that will have to be paid. Lenders will want higher expected returns to compensate for their risk of lending to a firm that has a high proportion of debt to assets. It is also possible to have too low a ratio of total debt to total assets. This can be quite costly to a corporation. Since interest expenses are deductible for income tax purposes, the government in effect pays a portion of the debt-financing costs.

Debt to Equity Ratio (DER): In order to indicate whether a firm total debt in relation to the total dollar amount owners have invested in the firm. It is calculated as:

$$\text{Debt-to-Equity ratio} = \frac{\text{total debt}}{\text{total shareholders equity}} \quad (4)$$

From the Table 2 , it means for every dollar of equity, the firm has borrowed 0.0777, 0.0830, 0.1564, 0.0619, 0.6246, 0.2158 and 0.3445. By analyzing these figures, it is clear that the company is not highly levered in 2008, 2009, 2011, 2012, 2013 and 2014 but not in 2011. It is

financially leverage in 2011. A firm can use more debt in their capital structure to increase the earning of firm.

4.4 Profitability Ratios

Profitability ratios give us an idea of what makes up a company's income and usually expressed as a portion of dollar of sales. For the purpose of this study, we would consider those showing profitability in relation to sales.

Gross Profit Margin: Gross profit margin measures how much of the percentage of sales dollars remaining (after obtaining or manufacturing the goods sold) is available to pay the overhead expenses of the company.

$$\text{Gross Margin Ratio} = \frac{\text{gross profit}}{\text{net sales}} \quad (5)$$

The gross profit margin indicates how much of every of dollar of sales is left after cost of goods sold. From the Table 3, from 2008 to 2010 (15.87%, 14.76%, 19.62% and 37.88% respectively) there is a continuous increase in the percentage of each dollars of sales after cost of goods sold of which there is great increase in 2010. Thus from 19.62% in 2009 to 37.88% in 2010. However, there is a fall in the ratio after 2010. Thus, the percentage of every dollar of sales falls after cost of goods falls starting from the period of 2010 to 2014. This is not favorable for the company. Higher percentage is better.

Table 2. Financial Leverage ratios

Years	Debt-to-Total Assets	Debt-to-Equity Ratio (DER)
2014	0.6857	0.0777
2013	0.6788	0.0830
2012	0.5687	0.1564
2011	0.5218	0.0619
2010	0.5685	0.6246
2009	0.6904	0.2158
2008	0.6885	0.3445

Source: Authors calculations, 2018

Table 3. Profitability ratios

Years	Gross profit margin	Operating profit margin	Net profit margin
2014	0.1939	0.0401	0.0073
2013	0.2006	0.4438	0.3854
2012	0.3549	0.1901	0.1380
2011	0.3788	0.3352	0.2308
2010	0.1962	0.0734	0.0234
2009	0.1476	0.0309	0.0684
2008	0.1587	0.3679	0.3086

Source: Authors calculations, 2018

The Operating Profit Margin: We are going to analyse and see whether the company has the ability to control operating expenses. This ratio indicates how much of each dollar of sales is left over after operating expenses.

$$\text{Operating Profit Margin} = \frac{\text{earning before interest and tax}}{\text{sales}} \quad (6)$$

From Table 3,, the operating profit margin rises and intermittently. Thus, it was 36.79% in 2008 and it fell greatly then to 3.09% in 2009. The percentage then rose in the following year (2010) to 7.34% then increase substantially in 2011 to 33.52%. It then fell again the following year (2012) to 19.01% and then increased greatly once again in 2013 to 44.38% and then fell abruptly in 2014 to 4.01%. This shows that the company after deducting operating expenses, the amount of each dollar of sales left is the ratios in the Table 3. Higher ratio is better. This could be attributed to higher selling prices or lower cost.

Net Profit Margin: We are to measure and indicate whether the company has the ability to earn a return after meeting interest and tax obligations. The Net Profit Margin Ratio is calculated as follows:

$$\text{Net Profit Margin} = \frac{\text{net income}}{\text{sales}} \quad (7)$$

Table 3 shows how much of each dollar of sales is left over after all expenses. The greater the ratio the better the company is doing in terms of profitability. Over here the same applies, the net profit margin falls and rises again. 2014 is the periods that record the least net profit margin. Thus, net income falls by 98% from 2013 to 2014 on a sale decrease of about 6%.

4.5 Activity Ratios

To measure the efficiency or effectiveness with which a firm manages its resources or assets we have to calculate for the total assets' turnover ratios.

Total Asset Turnover Ratio: We are to calculate and indicate how efficiently the company is utilizing its assets to produce revenues or sales. It is calculated as:

$$\text{Total assets turnover ratio} = \frac{\text{sales}}{\text{total assets at beginning of last year}} \quad (8)$$

From Table 4, assets utilization was consistent between 2010 and 2011 with each \$1 in assets

supporting slightly less than \$1. This means it will require less than \$6 of investment in assets in 2010 and 2011. A higher ratio means that Anglogold Ashanti Limited assets are working hard all their things being equal and the vice versa. The highest total assets turnover ratio recorded in the study was in 2012. The ratio increased until 2012 then it began to decline. The ratio for this study period was not a good sign.

Table 4. Total asset turnover ratio

Years	Total asset turnover ratio
2014	0.56
2013	0.62
2012	0.73
2011	0.54
2010	0.56
2009	0.49
2008	0.39

Source: Authors calculations, 2018

Comparing the ratios in Table 4 with Mahdi and Kumar (2010) which has the result to be (1.26, 1.82, 4.24, 3.69, and 6.82). It indicates that the company is efficiently utilizing the fixed assets.

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

After the study of the components of current assets & current liabilities and the trends of working capital, it was found that:

- The current ratio has shown in a fluctuating trend as 1.68, 1.93, 1.33, 1.77, 0.53, and 0.53. but it indicates a continuous increase from 2009 to 2011. The higher the ratio the more solvent the business is. Although their ratio is high it is not always that there is solvency it may also indicates that the company is holding excess liquid funds.
- The quick ratio is also in a fluctuating trend throughout the period 2008 – 14 resulting as 0.90, 0.89, 0.62, 1.06, 0.65, 0.67 and 0.84. The company liquidity position is not far from the normal standard, to some extent it is satisfactory.
- The total assets turnover ratio is in increasing trend from the year 2008 – 14(0.56, 0.62, 0.73, 0.54, 0.56, 0.49 and 0.39). Asset turnover ratio should be looked at together with the company's financing mix and its profit margin for a

better analysis. A lower turnover ratio means that the company is not using its assets optimally.

- The liquidity position of the company is not good. The current ratio is below (current liabilities exceed current assets) for the study period except 2011 that has met the standard norm, then the bank may have problems paying its bills on time in the other periods. However, low values do not indicate a critical problem but should concern the management. Mahdi and Kumar 2010 also undertake similar project and from the above their ratios shows that the liquidity position is good. However higher liquidity ratios does not mean the company is doing better but maybe as a result of holding excess liquid funds.
- The Debt to Equity Ratio is quite low, the company can increase their debts in the capital structure to avail the benefits of borrowed funds. And it should also concern management as the values keeps on fluctuating. But it is good if the company choses to run its operations with Equity by keeping the ratio down then it's a good thing. Company sales and company assets should grow at the same rate. If sales revenue doubles, then the company assets should double too. That way, even if you borrow more money, the debt/equity ratio won't explode.
- Asset turnover ratio should be looked at together with the company's financing mix and its profit margin for a better analysis. A lower turnover ratio means that the company is not using its assets optimally.

5.2 Conclusion

Good financial planning is essential to the success of any business and requires an understanding of the financial statements and the ability to analyze them and interpret the ratios. As seen in the study, the ratios are helpful tools that can pinpoint problem areas that require deeper examination of the business entity. The company's overall position is not at a good position, particularly the current year's position due to decrease in the profit level from the last year position. It is better for the organization not to diversify the funds to different sectors in the present market scenario.

5.3 Policy Recommendation

- *Overhead:* It is recommended that the company assess its overhead costs and

see if there are opportunities to decrease them. Lowering overhead has a direct impact on profitability. Overhead expenses, including rent, advertising, indirect labor and professional fees, are indirect expenses that you incur to operate the business outside of direct material and direct labor.

- *Unproductive assets:* It is also recommended that, if the company has unproductive assets that the business is just storing, then it's time to get rid of them. The only reason you should spend money on assets such as buildings, equipment and vehicles is to generate revenue.
- *Accounts receivable:* It is again suggested that the company should monitor the accounts receivables effectively to ensure that you're billing your clients properly and that you're receiving prompt payments.
- *Accounts payable:* The Company should always negotiate longer payment terms with your vendors whenever possible to keep your money longer.
- *Increase revenue:* The easiest way to improve asset turnover ratio is to focus on increasing revenue. The assets might be properly utilized, but the sales could be slow resulting in a low asset turnover ratio. The company needs to increase its sales by more promotions and by quick movements of the finished goods.
- *Profitability:* the company should review the profitability on their various products and services. Assess where prices can be increased on a regular basis to maintain or increase profitability. As your costs increase and markets change, prices may need to be adjusted as well.
- *Improve growth:* I would recommend that the company should ensure that company sales and company assets should grow at the same rate since the company is using equity to run the business thereby keeping the debt to Equity ratio down. If sales revenue doubles, then the company assets should double too. That way, even if you borrow more money, the debt/equity ratio won't explode.

DISCLAIMER

The products used for this research are commonly and predominantly use products in our area of research and country. There is absolutely no conflict of interest of the author and producers of the products because we do not intend to use

these products as an avenue for any litigation but for the advancement of knowledge. Also, the research was not funded by the producing company rather it was funded by personal efforts of the author.

COMPETING INTERESTS

Author has declared that no competing interests exist.

REFERENCES

1. Drake KE. The psychology of interrogative suggestibility: A vulnerability during interview. *Personality and Individual Differences*. 2010;49(7):683-688.
2. Michael CE. Reliance on published financial statements and investment decision making in Nigeria banking sector. *European Journal of Accounting and Finance Research*. 2013;1(4):67-82.
3. U.S. Gautam, "Accountancy". New Delhi; Vrinda Publications; 2005.
4. Pandey IM. *Financial Management Ninth Edition India*, Vikas Publishing House R.T Ltd; 2005.
5. Meigs RF, Williams J, Haka SF, Better MS. *Financial Accounting*. 10th Edition. London: McGraw Hill Companies Inc; 2001.
6. Meigs WB, Meigs RF. *Financial Accounting*. USA: McGraw Hill, Inc; 2003.
7. Diamond MA. *Financial accounting*. Ohio: Southwestern college publishers; 2006.
8. Gupta PK. Risk management in Indian companies: EWRM concerns and issues. *The Journal of Risk Finance*. 2011;12(2): 121-139.
9. Altman M. Implications of behavioural economics for financial literacy and public policy. *The Journal of Socio-Economics*. 2012;41(5):677-690.
10. Ellis F. Household strategies and rural livelihood diversification. *The Journal of Development Studies*. 1998;35(1):1-38.
11. Fleming G, Heaney R, McCosker R. Agency costs and ownership structure in Australia. *Pacific-Basin Finance Journal*. 2005;13(1):29-52.
12. Okwo IM. Investment in fixed assets and firm profitability: Evidence from the Nigerian Brewery industry. *Eur. J. Bus. Manag.* 2012;4(20):10-17.
13. Xu ZS, Xu NZ. The research of the optimal allocation of assets structure and business performance. *Res. J. Econ. Bus. ICT*. 2013;8:1-5. [ISSN 2045-3345]
14. Jose HA, et al. A study of the relative efficiency of Chinese ports: A financial ratio-based data envelopment analysis approach. *Journal of Expert Systems*. 2010;27(5):349-362.
15. Wu J, Zhu M. Empirical analysis of rural influencing factors on listed agribusiness financial performance. *Journal of Agricultural Economics and Management*. 2010;3:22-27.
16. Seema GPK, Surendra SY. Impact of MoU on financial performance of public sector enterprises in India. *Journal of Advances in Management Research*. 2011;8(2):263-284.
17. Gombola MJ, Ketz JE. A note on cash flow and classification patterns of financial ratios. *Accounting Review*. 1983;105-114.
18. Ho CT, Wu Y. Benchmarking performance indicators for banks: Benchmarking. *An International Journal*. 2006;13(2):147-159.
19. Cinca CS, Molinero CM, Larraz JG. Country and size effects in financial ratios: A European perspective. *Global Finance Journal*. 2005;16(1):26-47.
20. Uyar A, Okumus E. Effect of global economic crisis on financial ratios of listed manufacturing companies in the ISE, *The Journal of Accounting and Finance*. 2010;46:146-156.

© 2020 Bagina; This is an Open Access article distributed under the terms of the Creative Commons Attribution License (<http://creativecommons.org/licenses/by/4.0>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Peer-review history:
The peer review history for this paper can be accessed here:
<http://www.sdiarticle4.com/review-history/49463>