FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

TOPIC

AN INVESTIGATION INTO THE EFFECTIVENESS OF RATIO ANALYSIS IN MEASURING AND EVALUATING COMPANY PERFORMANCE. A CASE STUDY OF HUNYANI FOREST LIMITED.

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ABSTRACT

At HFL the current measurement and evaluation of company performance using ratio analysis fails to recognize qualitative data, current data, varying accounting methods and policies among many other factors in its calculations resulting in distorted and misleading performance results. Ratio analysis aggregated many aspects of performance as the ratios are uncategorized. There is overreliance on only ratio analysis as a performance measure without making allowance in performance calculations for these inherent weakness and also recognition of the usefulness of other company performance measuring and evaluation tools. The study, therefore, sought deduce whether the current use of RA in MR enables CP measurement considering the unfavorable aspects and giving recommendation thereof. The study utilized the case study method and data was collected using questionnaires, interviews and secondary documents. A sample of 15 participants was chosen from a population of 60 people. Judgmental and convenience sampling techniques were used giving a sample comprising top managing director, general managers, clerical officers and junior employees. Bar graphs, pie charts and tables were used to present data. The data was analyzed using Microsoft excel. From the analysis of the findings, the research noted that the current use of RA in MR was not effective in measuring CP and that the analysis tool in use had inherent weakness which the management was not taking into consideration. The findings also indicated that the main weaknesses of RA included: ignorance of qualitative data, lack of an absolute standard and reliance on historical information. Other weakness resulting from the effect of inflation and manipulation were identified. In addition, it was revealed some ways could be applied to improve the effectiveness of ratios: disclosure of accounting methods, inclusion of qualitative data, contracting of an independent financial analyst and the use of RA in conjunction with other tools. The study recommends that HFL should use RA in conjunction with another performance measuring tool. It also recommends that HFL should explore other alternatives in measuring performance. The research recommends a similar study to be executed on a wider scale in other timber industries in order to generalize these findings from a case study.