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# Liquidityand Financial Performance Of Quoted Selected Firms In Nigeria

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**ABSTRACT**
This study examines the impact of Liquidity on Financial Performance of selected quoted firms in Nigeria. The study has been conducted in different parts of the globe and in Nigeria with different findings which are mixed and inconclusive. The population of the study consists of ten (10) firms quoted on the Nigerian stock exchange as at 31st December 2020 out of which ten (10) firms were selected as samples for a period of twelve (12) years from 2009 to 2020 based on purposeful sampling technique. The study uses multiple regressions as a tool for analysis. The proxy for Liquidityis Current ratio, Acid test ratio and Cash Ratio while the proxy for Financial PerformancewasReturn on Assets (ROA).The study reveals that Current ratio has a positive significant impact on financial performance of quoted selected firms in Nigeria.Cash ratio has significant impact on financial performance of quoted selected firms in Nigeria. Acid Test ratio has no significant impact on financial performance of quoted selected firms in Nigeria.

**Keywords:**Liquidity, Return on Assets, Current ratio,Acid Test ratio,Cash Ratio, Firm size.

## I. INTRODUCTION

The most important goal of working capital management is Liquidity and it is a central task of revenue optimization and company's financial performance(Alhassan & Islam 2021).Liquidity is the capacity of a company to satisfy its current financial obligations after they fall due. It also means how quickly you can get your hands on your cash. It can also be seen as the ability to get your money whenever you need it. A firm may incur extra costs if it fails to honor its short-term financial obligations. A company might be endowed with Profitability but may fall short of liquidity if its assets cannot by converted easily to cash (Yakubu, Dangana& Oluwafemi (2020). Liquidity ratios are important financial metrics used to assess a company's ability to pay off current debt obligations. The two most common liquidity ratios are the current ratio and the acid test ratio. These ratios are key financial ratios used by internal and external analysts to gauge a firm's liquidity, which represents its capacity to pay off its existing short-term liabilities if it needs to without the assistance of additional financing.Firms need sufficient liquidity through cash on hand or easily converted securities to meet their obligations while still covering payroll, paying vendors, and maintaining operations. Firms with high liquidity have a solid cash and current accounts position with the ability to cover short-term liabilities and invariably tends to have high profitability which will eventually lead to high financial performance.Firms with low liquidity needs the help of external financing, which could be harder to raise if they are truly in a financial predicament.When tracked across multiple accounting periods, liquidity ratios reveal whether a firm's liquidity is improving or worsening. When measured across firms within the same industry, liquidity ratios assist analysts and investors in assessing which companies may be in a stronger liquidity position.Comparing liquidity ratios is less effective when analyzing firms' finances in different industries or when there is a wide variance in the size of the firms being analyzed, as they might require different financing structures.Empirical studies have been conducted on the Liquidity and financial performance. These include studies of Alhassan and Islam (2021), Etale&Sawyerr (2020), Waswa, Mukras&Oima (2018) are largely in Nigeria and Africa. These

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studies have provided mixed and inconclusive findings due to the data collected, methodology used and the industry used. To the best of our knowledge, among studies conducted in Nigeria and Africa, we have not seen a study that took into consideration the selected quoted firms from food and beverage and agricultural industries. To this end, this study attempts to fill the gap by examining the impact of liquidity on financial performance of quoted selected firms in Nigeria. The main objective of the study is to examine the impact of liquidity on financial performance of quoted selected firms in Nigeria. Specific objectives are: to determine the extent to which Current ratio impact on financial performance of quoted selected firms in Nigeria, to determine the extent to which Acid Test ratio impact onfinancial performance of quoted selected firms in Nigeria, to determine the extent to which cash ratio impact on financial performance of quoted selected firms in Nigeria. In line with the specific objectives, three hypotheses are formulated which are: HO1 Current ratio has no significant impact on financial performance of quoted selected firms in Nigeria. HO2 Acid Test ratio has no significant impact on financial performance of quoted selected firms in Nigeria. HO3 Cash ratio has no significant impact on financial performance of quoted selected firms in Nigeria.

## II LITERATURE REVIEW

Various studies have attempted to examine the impact of Liquidity on financial performance.Alhassan and Islam (2021) examined the link between liquidity and profitability, as well as the impact of liquidity on profitability. Ten listed companies with a bigger market share in the oil and gas sector of the Nigerian economy were subjected to a fixed panel regression study. Secondary data were gathered for ten years, from 2011 to 2020, from their published annual reports. Profit after tax (PAT), Return on Asset (ROA), and Return on Equity (ROE) were used to determine profitability (ROE). Internal liquidity variables such as equity, debt, and sales were used to determine the behavior of the dependent variable, but external elements such as lending interest rate and exchange rate were employed to further explain profitability behavior. The data were analyzed using a multiple regression approach. The findings reveal that debt has a significant negative impact on companies' profitability. Similarly, equity capital, as well as retained earnings, are more beneficial to firms than the debt financing of the oil and gas sector. Etale&Sawyerr (2020) investigated Liquidity management and financial performance of GlaxoSmithKline consumer Nigeria Plc. Current ratio (CUR), quick ratio (QUR) and cash ratio (CAR) were used to represent liquidity management (the independent variables), while return on assets (ROA), proxy for financial performance was adopted as the dependent variable. Secondary data for the study were obtained from the financial statements of GlaxoSmithKline for the eight years period covering 2011 to 2018. Statistical tools employed for the analysis of data include descriptive statistics and OLS multiple regression technique applying the E-view 10 software. The results of the study showed that current ratio and cash ratio had significant positive effect on return on assets, while quick ratio had a significant negative link with return on assets. The study concluded that liquidity management had mixed significant economic connection with financial performance in the case of GlaxoSmithKline Consumer Nigeria PLC. Waswa, Mukras&Oima (2018) examined the effect of Liquidity on Financial Performance of the Sugar Industry in Kenya. They studied the effect of liquidity management on firm performance using a sample of five sugar firms from 2005 to 2016. Random effects regression model was employed. The results of the study indicated a negative relationship exists between liquidity management and firm performance. Emmanuel & Stephen (2020) investigated the impact of Liquidity Management on Performance of Deposit Money Banks in Nigeria. Six banks with international affiliation was used. Data were extracted from annual reports from the banks seven years from 2013 – 2019. Descriptive statistics and regression analysis were performed using the E-View 10.0 as instrument for the analysis. Their findings indicated a strong positive relationship between capital adequacy and return on equity while liquidity and current ratio showed statistical insignificant negative relationship with return on equity. Bank size showed a strong positive relationship with return on equity. El Mehdi (2014) examined the relationship between liquidity risk and financial performance of Moroccan banks and to define the determinants of bank's performance in Morocco from 2001–2012. Panel date regression was used to identify determinants of Moroccan banks performance. 4 bank's performance ratios, 6 liquidity ratios were used to analyze 5 specific determinants and 5 macroeconomic determinants of bank performance. The findings of the Study showed that Moroccan bank's performance is mainly determined by 7 determinants: liquidity ratio, size of banks, logarithm of the total assets squared, external funding to total liabilities, share

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of own bank's capital of the bank's total assets, foreign direct investments, unemployment rate and the realization of the financial crisis variable and Banks' performance depends positively on size of banks, on foreign direct investments and on the realization of the financial crisis and negatively on external funding to total liabilities, on share of own bank's capital of the bank's total assets and on unemployment rate while the dependence between bank performance and liquidity ratios and bank performance and logarithm of the total assets squared depend on the model used.Yameen, Farhan &Tabash (2019) studied the Impact of Liquidity on Firms' Performance of Indian Pharmaceutical Companies. Data were extracted from Prowess IQ database. Analysis was done using a balanced panel data of 82 pharmaceutical companies for the period of 10 years from 2008 to 2017. The Study found out that current liquidity ratio and quick ratio have a positive and significant impact on the profitability of pharmaceutical companies measured by return on assets, while control variables leverage, firms' size, and age have a negative impact on the profitability of pharmaceutical companies. Kariuki, Muturi & Njeru (2021) examined the Influence of Liquidity On Financial Performance Of Insurance Companies In Kenya. They adopted correlational research design. The population of the study was the fifty-three insurance companies in Kenya that were operational in 2018. The result of the study showed that liquidity had an enormous positive effect on financial performance (Return on assets and return on equity). Marozva (2015) examined the relationship between liquidity and bank performance for South African banks from 1998 - 2014. They employed the Autoregressive Distributed Lag (ARDL)-bound testing approach and the Ordinary Least Squares (OLS) to examine the nexus between net interest margin and liquidity. The study revealed that there exists a negative significant deterministic relationship between net interest margin and funding liquidity and also an insignificant co-integrating relationship between net interest margin and the two measures of liquidity.Syahdina&Handayani (2020) examined the effect of liquidity, profitability, the size of the firm and its value in capital structure. The sample of the study was 15 banking companies listed on the Indonesian Stock Exchange from 2014-2018 period. Eviews 8.0 program was used for analysis. The results of the study indicated that liquidity, profitability, and firm size significantly influence capital structure. Capital structure was not a mediator of the influence of liquidity and profitability on firm value, while the capital structure was a mediator of the effect of firm size on firm value.Widyastuti (2019) analyzed the effect of liquidity, activity and leverage on company performance and the value of food and beverage companies listed on the Indonesia Stock Exchange. The population of the study were all food and beverage companies listed on the IDX, data was taken in time series for 3 years, 2015, 2016 and 2017. Multivariate analysis was used to test the hypothesis of the study. The findings of the study showed that liquidity as measured by CAR, CHR, QAR has a positive and significant effect on financial performance as measured by NPM, ROA, and financial performance has a significant positive effect on firm value as measured by PBV, PER and Tobin's q. The activities measured by PAT, PMK, PTA and leverage measured by DAR and DER did not significantly influence financial performance and firm value. Vaita (2017) examined the effect of liquidity on the financial performance of tier one listed commercial banks in Kenya. Descriptive research design was applied to the entire population of six tier one listed commercial banks in Kenya. Primary data was collected using questionnaires which were completed by thirty-one respondents collectively from the six banks, who were ALCO members. The secondary data were collected from the individual bank websites, the regulator, Central Bank of Kenya, CBK and the Kenya National Bureau of Statistics, KNBS. Descriptive and inferential statistics were used to analyze the data, establishing the relationship between the independent variables and the dependent variable, financial performance measured through return on equity, ROE, and return on assets, ROA. Trend analysis, regression and correlation analysis results were found after using the Statistical Package of Social Sciences, SPSS, and Microsoft Excel as the analysis tools for the study. The result of the study showed that liquidity coverage ratio had no significant effect on ROE and a positive significant effect on ROA. Management efficiency had a strong positive nonsignificant effect on both ROE and ROA. Gross Domestic Product growth had a strong positive nonsignificant effect on both ROE and ROA. Nyabate (2013) examined the effect of liquidity on the financial performance of financial institutions listed in the Nairobi Securities Exchange. Descriptive research design was adopted. Secondary data was retrieved from the balance sheets, income statements and notes of 19 financial institutions in the NSE from 2010-2014. A regression model was developed to determine the relationship between the dependent variable (Financial performance) and independent variables included liquidity while capital structure was used as the control variable. Pearson's correlation and

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regression analysis were used for the analysis. The results of the study indicated that the relationship between liquidity and financial performance is weak with an adjusted R2 of 55.17% and also that capital structure had a significant relationship with ROA while liquidity had an insignificant relationship. The results further show that there is a negative relationship between NSE listed financial institutions' cash position indicator with ROA.

## III METHODOLOGY

This research adopted correlation research design and was considered adequate and appropriate for this study because it describes the statistical relationship between independent variables of the study (Current ratio,Acid Test ratio,Cash ratio,) and the dependent variable (Return on Assets). The population consists of selected firms namely Ellah Lakes Plc, FTN Cocoa Processing Plc, Livestock Feeds plc, Okomu Oil Palm Plc, Presco Plc, Nestle Nigeria Plc, Unilever Nigeria Plc, Cadbury Nigeria Plc, Seven Up Nigeria Plc and Nigeria Breweries Plc quoted on the Nigerian Stock Exchange as at 31st December 2020 and covered a period of Twelve (12) years (2009-2020). Purposeful sampling technique was employed to select the sample. The sample selected is: Ellah Lakes Plc, FTN Cocoa Processing Plc, Livestock Feeds plc, Okomu Oil Palm Plc, Presco Plc, Nestle Nigeria Plc, Unilever Nigeria Plc, Cadbury Nigeria Plc, Seven Up Nigeria Plc, and Nigeria Breweries Plc. In line with this, the sample size is all the ten (10) selected quoted firms on the Nigerian stock exchange. The study employed panel data using statistical package for social sciences (SPSS 25) and Ordinary Least Square (OLS) method adopted in this study is a parametric statistical test that is based on a number of assumptions, the violation of which could affect the reliability of the results. The Pearson correlation and t-test statistics were used for inferential analysis. Two of the most commonly encountered problems addressed in this study relate to normal distribution of the variables and descriptive statistics was used to test for normality of data.

**Model Specification**

The model that was used to test the hypothesis formulated for this study is presented below. The null Hypothesis is tested considering the results for the P-values at 1%, 5% and 10% level of significance.

$ROA = f(\beta_1 CUR + ACTR\beta_2 + CAR\beta_3 + \beta_4 FSIZE)$

$ROA = \alpha + \beta_1 CUR + ACTR\beta_2 + CAR\beta_3 + \beta_4 FSIZE + \epsilon_i$

Where

$\alpha$= the intercept

ROA = ProfitAfter tax divided by Total Assets.

CUR = Current Assets divided by Current Liabilities

ACTR = (Current assets minus Inventory) divided by Current Liabilities

CAR = the ratio of a company's total cash and cash equivalents to its current liabilities.

FSIZE = Firm Size measured as Natural log of total assets

$\epsilon_i$= error term

Firm size is a control variable.

## IV. DATA PRESENTATION

This part presents the results of the descriptive statistics and regression results on the impact of Liquidity on financial performance of selected quoted firms in Nigeria. (3) Three explanatory variables and one (1) control variable are employed for the purpose of explaining and predicting the impact of impact of Liquidity on financial performance of selected quoted firms in Nigeria.

**Test of Normality**

The normality tests are supplementary to the graphical assessment of normality. For this study, Z skewness and Z Kurtosis are used to test for normality of the Three (3) independent variables; namelyCurrent ratio,Acid test ratio,Cash ratio. The Z skewness was computed as skewness divided by standard error of skewness and the Z kurtosis was computed as kurtosis divided by standard error of kurtosis.

Table 4.2.1 shows the skewness, kurtosis and Z skewness and Z kurtosis.

**Table 4.2.1 Descriptive Statistics Table for the Variables**

| Variables | Skewness | Standard Error | Z Skewness | Kurtosis | Standard Error | Z Kurtosis |
|---|---|---|---|---|---|---|
| CUR | 1.970 | 0.221 | 8.914 | 4.002 | 0.438 | 9.136 |
| ACTR | 3.386 | 0.221 | 15.321 | 13.801 | 0.438 | 31.509 |
| CAR | 3.995 | 0.221 | 18.076 | 18.183 | 0.438 | 41.513 |

**This table shows the normality test for Current ratio, Acid Test ratio andCash ratio.**

In Small samples like that of this study which the number of observations is 120, values of Z skewness and Z kurtosis greater or lesser than

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1.96 are sufficient to establish normality of the data. The result of Skewness for Current ratio is 1.970. The Z skewness of Current ratio is 8.914 which is more than 1.96 shows that the data is normal which indicates that the data for Current ratio relates linearly to the dependent variable (Return on Assets). The result of the Kurtosis for Current ratio is 4.002 and the Z kurtosis of Current ratio is 9.136 is more than 1.96 and therefore, is normal which indicates that the data for Current ratio relates linearly to the dependent variable (Return on Assets). The result of Skewness for Acid test ratio is 3.386. The Z skewness of Acid test ratio is 15.321 which is more than 1.96 shows that the data is normal which indicates that the data for Acid Test ratio relates linearly to the dependent variable (Return on Assets). The result of the Kurtosis for Acid test ratio is 13.801 and the Z kurtosis of Acid test ratiois 31.509which is more than 1.96 and therefore, is normal which indicates that the data for Acid test ratio relates linearly to the dependent variable (Return on Assets). The result of Skewness for Cash ratio is 3.995. The Z skewness of Cash ratio is 18.076 which is more than 1.96 shows that the data is normal which indicates that the data for Cash ratio relates linearly to the dependent variable (Return on Assets). The result of the Kurtosis forCash ratio is 18.183 and the Z kurtosis of Total-Debt ratio is 41.513 which is more than 1.96 and therefore, is normal which indicates that the data for Cash ratio relates linearly to the dependent variable (Return on Assets).Ghasemi and Zahediasl (2012).

**4.2.2 Liquidity impact on Financial Performance**

| Variable | Coefficient | T – value | P – value |
|---|---|---|---|
| Constant | 3.785 | 1.826 | 0.070 |
| CUR | 0.024 | 5.491 | 0.000 |
| ACTR | 0.138 | 0.131 | 0.898 |
| CAR | 0.218 | 2.107 | 0.037 |
| FSIZE | 3.855 | 1.740 | 0.085 |
| R | 0.74 | | |
| $R^2$ | 0.54 | | |
| Adj $R^2$ | 0.53 | | |
| F stat | 33.925 | | |
| F-Sig | 0.000 | | |
| DW | 0.695 | | |

**Source: Author's computation using SPSS 25**

The estimated equation of the study is presented as follows:
ROA= 3.785 + 0.024 (CUR) + 0.138 (ACTR) + 0.218 (CAR) + 3.855 FSIZE.

Financial Performance of firms measured by Return on Assets would be equal to 3.785 when all other variables are held to zero. A one unit change of Current ratio all other variables remain constant, would increase Current ratio by 0.024.The regression result of the study shows that the beta coefficient in respect of Current ratio is (0.024) and the t-value is (5.491) and it is significant at 1%. This means that, Current ratio has a positive significant impact on financial performance of quoted selected firms in Nigeria. The implication of this is that, the higher the Current ratio the better the financial performance of quoted selected firms in Nigeria. This provides an evidence of rejecting the hypothesis stating that Current ratio has no significant impact on financial performance of quoted selected firms in Nigeria. A one unit change of Acid test ratio all other variables remain constant, would increase Acid test ratio by 0.138.The regression result of the study shows that the beta coefficient in respect of Acid test ratio is (0.138) and the t-value is (0.131) and is not significant. This means that, Acid test ratio has no significant impact on financial performance of quoted selected firms in Nigeria. The implication of this is that, the higher the Acid test ratio, the firm, the lower the financial performance of quoted selected firms in Nigeria. This provides an evidence of accepting the hypothesis stating that

Acid test ratio has no significant impact on financial performance of quoted selected firms in Nigeria. A one unit change of Cash ratioall other variables remain constant, would increase Cash ratio by 0.218.The regression result of the study shows that the beta coefficient in respect of Cash ratiois (0.218) and the t-value is (2.107) and it is significant at 5%. This means that, Cash ratio has significant impact on Financial performance of quoted selected firms in Nigeria. The implication of this is that, the higher the cash ratio, the better the financial performance of quoted selected firms in Nigeria. This provides an evidence of rejecting the hypothesis stating that Cash ratio has no significant impact on financial performance of quoted selected firms in Nigeria.

The Total impact of the Liquidity is able to explain the dependent variable up to (74%). This shows a strong positive relationship as indicated by the R valueand the remaining (26%) are controlled by other factors. Similarly, the result of the F-statistic shows the overall fitness of the model. The F- statistic has a value of (33.925) and is significant at 1% which implies that the model is fit because it is significant at all levels of significant. Durbin Watson of (0.695) shows that there is no problem of autocorrelation in the data set (Gujarati, 2004).

**FINDINGS OF THE STUDY**

Current ratio has a positive significant impact on financial performance of quoted selected firms in Nigeria.

Acid Test ratio has no significant impact on financial performance of quoted selected firms in Nigeria.

Cash ratio has a positive significant impact on financial performance of quoted selected firms in Nigeria.

## V. CONCLUSIONS

This study has contributed to findings on Accounting and Finance Research in Nigeria. It investigated whether liquidity impact on financial performance of quoted selected firms in Nigeria. Current ratio and Cash ratioimpact on financial performance of quoted selected agricultural and food beverages firms in Nigeria whileAcid test ratio has no significant impact on financial performance of selected agricultural and food beverages firms in Nigeria.

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