AJANAKU PLC

1. Profitability ratio

a. Return on Capital Employed:

$$ROCE = \frac{\text{Profit before interest and taxation}}{\text{Capital Employed}} \times 100$$

$$ROCE = \frac{220000}{9000000} \times 100$$

24.40%

b. Return on Equity/return on shareholder capital

$$ROE = \frac{\text{Profit after taxation and preference dividend}}{\text{share capital and reserves (excluding pref.share capital)}} \times 100$$

$$ROE = \frac{112000}{700000} \times 100$$

16%

C. Operating profit margin = $\frac{\text{Profit after interest and taxation}}{\text{revenue/sale}} \times 100$

$$\frac{112000}{2000000} \times 100$$

5.60%

D. Gross Profit Margin : $\frac{\text{Gross profit}}{\text{revenue/sales}} \times 100$

$$\frac{500000}{2000000} \times \times 100$$

25%

2. Liquidity Ratios

a. Current Ratio: current assets / current liabilities

760000 / 700000

1.09%

1.09:1

b. Acid-Test Ratio: current asset - inventories / current liabilities

760000-500000 / 700000

260000 / 700000

0.37

0.37:1

3. Working Capital Efficiency Ratio

a. Average collection period = Trade Receivables X 12 months

Credit sales

220,000 X 365 days

2000000

36.5 =37 days

b. Average payable period = Trade payables X 365 days

purchases

172800 x 365 days

1080000

58.4= 58 days

c. Inventory turnover period = Inventory x 365 days

cost of sale

500000 x365

1500000

121.67 = 122 days

B. **Liquidity Ratio**

the acid- test ratio of Ajanaku plc is very low and would not be easily convertible to cash to pay off its current liabilities or meet its short term obligations.
Ajanaku plc may not be able to meet its short term debts at short notice if it sells off its liquid assets. The current ratio shows that the company has relatively low resources to pay its debt over the next twelve months.

Profitability ratio

The profitability ratio of Ajanaku plc shows that the firm is efficient in generating profit from every unit of shareholders equity. its return on both equity and capital employed is high, the profi margin shows that the company is efficient in using its resources and generates high income from its operations. Also, looking at the company's gross profit margin indicates that the company efficiently manages its cost of production and may have money leftover to spend on other business operations like, marketing, research and development etc.

Working Capital Efficiency Ratio

The inventory turn over period shows that the company takes too long to sell and replace inventory during a period, otherwise, theother ratios are of reasonable standards.

COMPARISON

The liquidity ratio is too low compared with the profitability ratio, this will mean that the company may become burdened with debt and may face default risk which the profit the company is making will not suffice, in paying those debts. The liquidity ratio is also low in coparison with the working capital efficiency ratio because the company does not have enough liquid assets which will also affect working capital. The company is making high profits, but has weaknesses in its working capital efficiency and liquidity ratio. The company must improve in these areas to maintain its growth and continue. urrent liabilities or meet its short term obligations.