NAME; CHIDOLUE JESSIE IFEOMA	Column1
MATRICULATION NUMBER; 18/SMS02/015	
DEPARTMENT: ACCOUNTING	
COURSE; FINANCIAL REPORTING AND ACCOUNTING II	
COURSE CODE: ACC 202	
ASSIGNMENT; ILLUSTRATION 1.AI,II,III AND B	
illustration1	
the following was extracted from annual reports and accounts of ajanaku plc	
statement of financial position as at31/12/2014	₦
non current assets(carring values)	
property plant and equipment	840,000
current assets	
inventory	500,000
receivables	200,000
investments	60,000
	1,600,000
equity and liabilities	
400,000 ₦1 ordinary share	400,000
issued and fully paid 200,000 ₦1 ordinary shares	200,000
capital reserves	100,000
revenue resrves	400,000
	700,000
non capital liability	
200,000 10% debentures(secured on freehold property)	200,000
	900,000
current liabilities	
trade payable	172,800
bank overdraft	439,200
current taxation	88,000
	1,600,000
statement of profit or loss for the year ended 31/12/2014	₦
revenue (all on credit)	2,000,000
profit after charging all expenses except debenture interest	220,000
debenture interest (gross)	-20,000
profit before taxation	200,000
taxation expense	-88,000
profit for the year	112,000
Notes	
a dividend was paid during the year ended 31/12/2014	53,600
purchases for the year	1,080,000
cost of sales for the year	1,500,000
the market price of ajanaku plc ordinary share as 31/12/2014	4

AJANAKU PLC'S RATIO ANALYSIS FOR THE YEAR 31/12/2014	Column1
Ai. PROFITABILITY RATIOS	%
i. returns on capital employed(ROCE):((profit before interest & tax)/capital employed)*100	24.44444444
ii. Returns on equity(ROE): ((profit after taxation- prefrence dividend)/share capital & reserves)*100	16
iii. Operating profit margin:((profit after interest and taxation/revenue(sales))*100	5.6
iv. Gross profit margin:(gross profit/revenue(sales)*100	25
NOTE: gross profit = sales - cost of sales	
Aii. LIQUIDITY RATIOS	
i. current ratio: (current asset/current liabilites)	1.085714286
	1.085:1
ii. Acid test ratio:(current assets - inventories)/current liabilites	0.371428571
	0.3714:1
Aiii. WORKING CAPITAL EFFICENCY RATIOS	days
i. average collection period:(trade recievable/credit sales)*365 days	36.5
ii. Inventory turnover period:(inventory/cost of sales)*365 days	121.6666667
iii. Average payable period: (trade payables/purchases)*365 days	58.4

QUESTION B

COMMENT ON THE LIQUIDITY OF AJANAKU PLC STATING THE REFERENCE POINTS TO WHICH RELEVANT RATIOS CAN BE COMPARED

The liquidity of ajanaku plc refers to the ease with which it is able to convert its assets to cash. Taking a look at its liquidity ratios; the acid test and current ratio one can depict that the company is not liquid enough to combact its short term debts,given to the fact that they are relatively low in comparison to a healthy company's standard. The current ratio,1.085:1,falls well, below the healthy company standards which are that its liabilites should be double its assets ie 2:1 or at least 1.5:1. it is well evident that the company is unable to meet its short term debts, without having to sell its noncurrent assets.

again taking a look at the acid test ratio,0.3714:1, it also falls well below the healthy company standards which stands that is quick assets should be equal to its liabilites ie 1:1 or at least 0.7:1. it is highly evident that the company aside its inventory is not liquid enough to battle its debts from the comparisons above it is evident that the company is in a shaky and negative liquidity position, this means that that the company is almost defenseless when it comes to battling short term debts.