

NAME: ABDULWAHAB MONSURA TEMITOPE  
MATRIC NO: 18/SMS01/001  
LEVEL: 200  
DEPARTMENT: ECONOMICS

1) PROFITABILITY RATIO

ROCE=  $\frac{\text{profit before interest and taxation}}{\text{capital employed}} * 100$

$$\text{ROCE} = \frac{220000}{900000 + 439200} * 100$$

ROCE= 16.4%

ROSC=  $\frac{\text{profit after interest and taxation and debenture interest}}{\text{share capital and reserves}} * 100$

$$\text{ROSC} = \frac{53600 + 112000}{700000} * 100$$

ROSC= 23.7%

operating profit margin=  $\frac{\text{profit after interest and taxation}}{\text{revenue/sale}} * 100$

$$\text{operating profit margin} = \frac{112000}{2000000} * 100$$

operating profit margin= 5.6%

ii) Liquidity ratio

current ratio=  $\frac{\text{current assets}}{\text{current liabilities}}$

$$\text{current assets} = \frac{760000}{700000}$$

current assets= 1.1%

Acid test ratio=  $\frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$

$$\text{acid test ratio} = \frac{760000 - 500000}{700000}$$

acid test ratio=0.3%

iii) working capital efficiency ratio

Average collection period=  $\frac{\text{trade receivables}}{\text{credit sales}} * 365 \text{ days}$

$$\text{average collection period} = \frac{200000}{2000000} * 365 \text{ days}$$

average collection period= 37 days

inventory turnover period=  $\frac{\text{inventory}}{\text{cost of sales}} * 365 \text{ days}$

$$\text{inventory turnover period} = \frac{500000}{1500000} * 365 \text{ days}$$

inventory turnover period= 122 days

average payable period=  $\frac{\text{trade payables}}{\text{purchase}} * 365 \text{ days}$

$$\text{average payable period} = \frac{172800}{1080000} * 365 \text{ days}$$

average payable period= 58 days

b) the current ratio indicates that the company is able to meet its short term obligation without stress. therefore the current ratio shows the company is more likely to pay the creditor back or the company is not efficiently using its current assets.  
using the acid test ratio, the company liquidity ratio is low. with the result the company is not managing its working capital very well and may likely struggle with paying of debts.