NAME: LESSO KENAN ENARI

MATRIC NUMBER: 18/SMS03/020

DEPARTMENT: BUSINESS ADMINISTRATION

COURSE CODE: ACC202

COURSE TITLE: FINANCIAL ACCOUNTING II

ASSIGNMENT ON ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

ILLUSTRATION 1

a. Compute the following ratios:
   i. Gearing Ratios
   ii. Investor's ratios
   iii. Activity ratios

i. **Gearing ratios:**

Gearing ratio = $\frac{Long\ term\ debt}{Share\ capital+Reserves+Long\ term\ debt} * 100$

$=\frac{200000}{700000+200000} * 100$

$=$22.22%

$\sim$22%

Debt to equity ratio $= \frac{Long\ term\ debt}{Share\ capital+Reserve} * 100$

$=\frac{200000}{700000} * 100$

$=$ 28.57%

$\sim$29%

ii. **Investor's ratios:**

Basic earnings per share

$=\frac{Profit\ attibutable\ to\ ordinary\ shareholders\ during\ the\ period(Profit\ after\ tax)}{Weighted\ average\ number\ of\ shares\ in\ issue\ during\ the\ period\ (no.of\ shares)} * 100$

$=\frac{112000}{200000} * 100$

=56 k

Dividend per share $= \frac{Total\ dividend}{Number\ of\ ordinary\ shares\ in\ issue} * 100$

$=\frac{53600}{200000} * 100$

$=26.8$ k

~ 27 k

Price/Earnings Ratio = $\frac{Market\ price\ per\ share}{Earninigs\ per\ share}$

$= \frac{400}{56}$

$=7.14$

Earnings yield = $\frac{Earnings\ per\ share}{Market\ price\ per\ share}$

$= \frac{56}{400}$

=0.14

=0.14*100

= 14%

Dividend Yield = $\frac{Dividend\ per\ share}{Market\ price\ per\ share}$

$= \frac{27}{400}$

= 0.0675

=0.0675 * 100

=6.75%

Dividend cover = $\frac{Earning\ per\ share}{Dividend\ per\ share}$

$= \frac{56k}{27k}$

=2.07 times

iii. **Activity Ratios:**

Inventory Turnover = $\frac{Cost\ of\ sales}{Average\ Inventory}$

$= \frac{1500000}{710000*}$

$= 2.1\ times$

Asset Turnover = $\frac{Revenue}{Total\ Assets/Capital\ employed}$

$= \frac{2000000}{700000+200000}$

=2.22 times

*Average Inventory

Opening inventory = Cost of sales + Closing inventory – Purchases

=150000 + 50000 – 1080000

= 920000

Average Inventory = Opening inv. + Closing inv. / 2

=920000+500000 / 2

=710000

b. Comment on the gearing of Ajanaku Plc., stating the reference point to which relevant ratios can be compared.

Ajanaku Plc. is lowly geared. This is because its debt is 22% of its total capital employed. The reference points are the gearing ratio and debt to equity ratio.