1. Profitability Ratio. (OGUNDIJO LYDIA DOLAPO 18/SMS01/025)

a. Return on capital employed

ROCE= Profit before interest and taxation ×100
Capital employed

Capital employed = share capital and reserve + long term debt

C. E= (500000+200000) + 200000
=700000 +200000
= 900000

Therefore, ROCE= 220000 ×100
'900000
=24.44%

b. ROE/ ROSC= Profit after taxation and preference dividend ×100
share capital and reserves (excluding preference share capital)
=112000 ×100
'700000
=16%

c. Operating profit margin

OPM= Profit after interest and taxation ×100
Revenue
=112000 ×100
'2000000
=5.6%

d. Gross profit margin= gross profit × 100
revenue

Gross profit= revenue- cost of sales

Gross profit= 2000000- 1500000
= 500000

GPM= 5000000 ×100
'2000000
=25%

2. Liquidity ratio

a. current ratio = Current asset
current liabilities
=760000
'700000
=1.09

b. Liquidity/ quick/ acid test ratio= current asset- inventory
current liabilities
=760000- 500000
'700000
=260000
'700000
=0.37

3. working capital efficiency ratio

a. Average collection period= $\frac{\text{Trade receivables} \times 365 \text{ days}}{\text{credit sales}}$

$$= \frac{200000 \times 365}{2000000}$$

$$= 36.5 \text{days}$$

b. Inventory turnover period= $\frac{\text{inventory} \times 365 \text{ days}}{\text{cost of sales}}$

$$= \frac{500000 \times 365 \text{ days}}{1500000}$$

$$= 121.67 \text{ days}$$

c. Average payable period= $\frac{\text{trade payable} \times 365 \text{ days}}{\text{purchases}}$

$$= \frac{172800 \times 365}{1080000}$$

$$= 58.4 \text{ days}$$

b.

Profitability Ratio

Ajanuku plc's return on capital emoloyed, return on equity and gross profit margin are very high. The profit margin indicates that the business is making a good profit which could be due successful marketing or due to the low cost price.

Working capital efficiency ratio

The ratio appears to be good by the general standard acceptable inventory turnover period which means that the business inventory turnover period is too high hence it is inefficient.

Liquidity ratio

The current and the quick ratios are well bekow the standard industry averages this implies that Ajanuku plc is either short of liability resources or it's managing its working capital.

Comparison

Liquidity ratio is low in comparison with a profitable ratio. The lower the liquidity ratio the lower the profitability ration in the sense that Ajanuku pls does not have enough current asset to cover its debt even though they make profit. The profit wont be enough because they have to set aside some as reserves.

Liquidity ratio is low in comparison with working capital ratio because the liquidity is below standard of the industry resource which affects the working capital because it has less liquidity resources which is unable to make debt payment.

Lastly, there is a strong profit but there are weaknesses in both the liquidity and working capital efficiency ratio.