NAME	SOWUNMI MOTUNRAYOOLUWA CHINEZE
MATRIC NUMBER	18/SMS01/032
DEPARTMENT	ECONOMICS
COURSE	ACC 202: FINANCIAL ACCOUNTING II

THE PERFORMANCE ANI FINANCIAL HEALTH OF AJANAKU PLC

AJANAKU PLC

GEARING RATIOS

	LONG TERM DEBT (LTD	SHARE CAPITAL	RESERVE (CAPITAL + REVENUE)	LTD	%	COMPANY'S AVERAGE (% / DAYS)
(I) DEBT TO EQUITY RATIO (LONG TERM DEBT/SHARE CAPITAL + RESERVES) * 100	200,000	400,000	500,000	---	100	22.22222222
(II) GEARING RATIO (LONG TERM DEBT/SHARE CAPITAL + RESERVES + LONG DEBT	200,000	400,000	500,000	200,000	100	18.18181818

INVESTOR'S RATIOS

	PROFIT ATTRIBUTABLE TO ORDINARY SHARE	WEIGHTED AV. NO OF SHARES IN ISSUE	TOTAL DIVIDEND	NO. OF ORDINARY SHARES IN ISSUE	MARKET PRICE PRICE PER SHARE	EARNINGS PER SHARE	DIVIDEND PER SHARE	
(I) EARNINGS PER SHARE PROFIT ATTRIBUTE. TO ORD. SHARE/ WEIG. AV. NO OF SHARE	112,000	200,000	-----	-----	------	-------	-------	0.56
(II) DIVIDEND PER SHARE TOTAL DIVIDEND/ NO. OF ORDINARY SHARES IN ISSUE	--	------	53,600	200,000	------	------	-------	0.268
(III) PRICE/EARNINGS RATIO MARKET PRICE PER SHARE / EARNINGS PER SHARE	.	------	----	------	4	0.56	------	7.142857143
(IV) EARNINGS YIELD EARNINGS PER SHARE / MARKET PRICE PER SHARE	.	-----	- -	-----	4	0.56	------	0.14
(V) DIVIDEND YIELD DIVIDEND PER SHARE / MARKET PRICE PER SHARE	.	------	--	-----	4	------	0.268	0.067
(VI) DIVIDEND COVER DIVIDEND PER SHARE / EARNINGS PER SHARE	--	-----	--	-----	-----	4	0.268	0.067

ACTIVITY RATIOS

	COST OF SALES	AVERAGE INVENTORY	REVENUE (SALES)	TOTAL ASSETS	DAYS	
(I) INVENTORY TURNOVER COST OF SALES / AVERAGE INVENTORY	1,500,000	250,000	---	------	365	2190
(II) ASSETS TURNOVER REVENUE (SALES) / TOTAL ASSETS	.	----	2,000,000	1,600,000	----	1.25

Gearing ratios are normally used to measure a company's financial leverage i.e how the company is able to finance its business which can be through debt or through equity . After calculating gearing ratios, to interpret the result, one of the 3 things are involved.

(i) **Highly geared ratio which is above 50%.** This is called highly geared due to the high risk that involved. A company that has a gearing ratio above 50% shows that the company financed its business through a higher debt than equity making the company have a higher financial risk and if not careful, can lead to a downfall of the business (they might end up being wound-up). Although it seems bad, it also has its pros as this can be good for companies who have a very strong profits or cash inflows, there are able to keep their own personal money and settle the debts out of the profits made by the company.

(ii) **Optimal geared ratio which is between 25% - 50%:** This is considered optimal or normal for well-established companies. The risk here will be a not so high and not so low.

(iii) **Lowly geared ratio which is below 25%:** This is called lowly geared as a result of the low risk involved. Any company that has a gearing ratio of below 25% means that the company financed its business by a larger percentage of equity than debt making the company have low financial risk. They don't have to always worry about how they will settle their debts (inclusive of the interests). It is mostly funded through equity by the shareholders.

From the question given, it can be seen that the gearing ratio is below 25% making Ajanaku PLC a lowly geared company meaning that it a good gearing ratio for the company as the level of risk involved is low.