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Level:200

AJANAKU PLC

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

Statement of Financial Position as at 31/12/2014

	₦	₦
Non-current Assets (carrying values)		
Property plant and equipment		840,000
Current Assets		
Inventory	500,000	
Receivables	200,000	
Investments	60,000	760,000
		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 Reserves		400,000
		700,000
Non-current Liability		
200,000 10% Debentures (secured on freehold property) 200,000		200,000
		900,000
Current Liabilities		
Trade Payables	172,800	
Bank overdraft	439,200	
Current Taxation	88,000	700,000
		1,600,000

RATIO ANALYSIS FOR 2014

PROFITABILITY RATIO

Return on (long term) Capital Employed (ROCE) ROCE=Profit before interest and tax/capital employed * 100= ([220,000/900,000]*100%)	24.4%
Returns on Equity (ROE) ROE=Profit after taxation and preference dividend/share capital and reserves(excluding prefrence share capital) X 100=([112,000/700,	16%
Operating Profit Margin (OPM) OPM=Profit after interest and taxation/Revenue *100=([112,000/2,000,000]*100%)	5.6%
Gross Profit Margin(GPM) GPM=Gross profit/Revenue*100%=([500,000/2,000,000]*100%)	25%

LIQUIDITY RATIO

Current Ratio(CR) CR=Current Assets/Current Liabilities=760,000/700,000	1.1:1
Quick/Acid Test Ratio(ATR) ATR=Current Asset – Inventories/Current liabilities=260,000/700,000	0.4:1

WORKING CAPITAL EFFICIENCY RATIO

	Days
Average Collection Period ACP=Trade Receivables/Credit Sales*365 days=([200,000/2,000,000]*365days)	36.5
Inventory Turnover Period ITP=Inventory/Cost of sales*365days=([500,000/1,500,000]*365days)	121.7
Average Payble Period APP=Trade Payables/Purchases*365days=([172,000/1,080,000]*365days)	58.4

Additional Notes:	₦
Dividends during the year end	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

Working Note	₦
Current asset-Inventory=760, 000-60,000	260,000
Capital Employed(share capital+reserves+long term debt)=700,000+200,000	900,000
Gross Profit(revenue-cost of sales)=2,000,000-1,500, 000	500,000

Bi) Liquidity ratio: The current and the quick (acid test) ratios are well below standard industry averages and this shows that Ajanaku Plc is either short of liquid resources or is managing its working capital poorly.
ii) Profitability ratio: Ajanaku Plc's return on capital employed, return on equity, and cross profit margin are all significantly high. The profit margin initiates that Ajanaku Plc is making good profit which could be due to successful marketing or advertisement or a low cost base.
iii) Working capital efficiency ratio: The ratios appear to be good by general standards except inventory turnover period. This means that Ajanaku Plc's inventory turnover period is way too high hence it is inefficient.

COMPARISON

Liquidity ratio is low in comparison with profitability ratio. The lower the liquidity ratio the lower the profitability ratio and this is because Ajanaku PLc does not have sufficient current asset to cover its debt even though they are making profit. The profit would not be enough because some of it has to be kept as reserves.

Liquidity ratio is low in comparison with working capital ratio because the liquidity ratio is below standard industry average which means Ajanaku Plc is short of liquid resources which is unable to make debt payments.

In summary, the profit performance is strong but there are weaknesses in both the liquidity and working capital efficiency ratio. These problems need to be solved if Ajanaku Plc wants to maintain its record of strong and consistent growth.