NAME: HARRY SOTONYE OPUBO
COURSE CODE: ACC202
MATRIC NO: 18/SMS03/014
DEPARTMENT: BUSINESS ADMINISTRATION
***Profitability ratio**
***liquidity**
***Working capital efficiency ratio**
B. comment on the liquidity of Ajahaku plc stating the refund point to which relevant ratio can be compared.
Profitability ratio
return on capital employed
ROCE = <u>Profit before interest and taxation</u> *
100 capital employed
ROCE= <u>220,000</u> *100
700,000
16
b] Return on equity/ return on shareholder capital
ROE/ROSE= <u>PROFIT AFTER TAXATION AND PREFERENCE DIVIDEND</u> *100
SHARE CAPITAL AND RESERVES EXCLUDING PREFERENCE SHARE CAPITAL
112,000
700,000 *100
16
C] Operating profit margin = 11 112,000 *100
<u>2,000,000</u>
5.6
d] Gross profit margin = <u>Gross profit</u> *100
Revenue/sales
<u>500,000</u>
***100**
2,000,000 400
2]
Liquidity ratio

current ratio = Current assets
Current liability
760,00
0 700,00
0
1.08
6
1.0
9
1 1.09:1
LIQUIDITY RATIO = <u>Current asset</u> -
<u>inventories</u>
Current liabilities
760,000- 500,000 =<u>260,000</u> 0.37
700,000
3] Working capital ratio
Average collection period = <u>Trade receivable</u> *365 days
Credit sales
<u>200,000</u> *365 days
2,000,000
365=37days
Average payable period= Trade payables
***36**
5 purchases
172,800
***365days**
1,080,000
58days
c] inventory Turnover period=
inventory*365 cost
of sale
500,000 *365days
1,500,000
122days

<u>Profitability Ratio</u>

Ajanuku plc's return on capital employed, 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 to successful marketing or due to the low cost price.

<u>Working capital efficiency ratio</u>

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.

<u>Liquidity ratio</u>

The current and the quick[acid test] ratios are well below the standard industry averages this implies that Ajanaku plc is either short of liquidity resources or is managing its working capital.

<u>Comparison</u>

Liquidity ratio is low in comparison with a profitable ratio. The lower the liquidity ratio the lower the profitability ration in the sense that this because Ajanuku plc doesn't have enough current asset to cover its debt even though they make profit. The profit won't 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 the industry resource which affects the working capital because it has less liquidity resources which is unable to make debt payments

In conclusion, there is a strong profit but there are weaknesses in both the liquidity and working capital efficiency ratio. These problem need to be attended to if the business wants to remain strong and grow.