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DEPARTEMENT: ECONOMICS
ASSIGNMENT: ILLUSTRATION 1A-IV,V,VI AND B

GEARING RATIOS

i) Debt to equity ratio	Long term debt	Share capital	Reserves	Answer (%)	Ratio
Long term debt/(share capital+reserves)*100	200,000	400000	500000	22.22222222	0.22:1
=200,000/(400,000+500,000)*100					
ii) Gearing ratio					
Long term debt/(share capital+reserves+long term debt)*100	200,000	400000	500000	18.18181818	0.18:1
=200,000/(400,000+500,000+200,000)*100					

INVESTORS RATIOS

i) Basic Earnings Per Share					
profit attributable to ordinary share holders/	Profit	issued shares	Answer		Ratio
weighed average no of issued shares	112000	200000	0.56		0.56:1
=112000/200000					
ii) Dividend Per Share (DPS)					
Total Dividend/No of ordinary shares in issue	total dividend	No of ord shares	Answer		
=53,600/200,000	53600	200000	0.268		0.268:1
iii) Price/Earnings Ratio					
Market price per shares/Earning per shares	Market price per share	Earnings per share	Dividend per share	Answer	Ratio
=4/0.56	4	0.56	-	7.142857143	7.14:1
iv) Earning Yield					
Earnings per share/market price share					
= 0.56/4	4	0.56	-	0.14	0.14:1

v) Dividend Yield Dividend per share/market price per share =0.268/4	4	-	0.268	0.067	0.067:1
vi) Dividend Cover Dividend per share/Earnings per share =0.268/0.56	-	0.56	0.268	0.478571429	0.48:1

ACTIVITY RATIOS

	Revenue	Closing Inventory	Assets	Answer
I) Inventory turnover (revenue/closing inventory)*100 (2,000,000/500,000)*100	2000000	500000	-	1460
ii) Assets Turnover Revenue/Assets 2,000,000/1,600,000	2000000	-	1600000	1.25

B. Comment on the gearing of Ajanaku Plc stating the reference point with which relevant ratios can be compared.
Answer.
Gearing ratios simply measures the relationship between equity capital and debt capital of the company and indicates its financial risk and stability.
Simply put, it shows how much of its capital is funded through debt in relation to how much it is funded internally through shareholders equity.
Reference points with which gearing ratios are compared are as follows; 50% and above indicates that the gearing ratio is very high.
25%-50% indicates that it is at optimal level. While below 25% indicates a low gearing ratio
The debt to equity ratio and gearing ratio are both below 25%. This low gearing ratio indicates that it is funded through equity more than debt
This means that Ajanaku Plc is highly stable financially and is not running into financial risk.