AJANAKU PLC

1. Profitability ratio

a. Return on Capital Employed:

$$ROCE = \frac{\text{Profit before interest and taxation}}{\text{Capital Employed}} \times 100$$

$$ROCE = \frac{220000}{9000000} \times 100$$

24.40%

b. Return on Equity/return on shareholder capital

$$ROE = \frac{\text{Profit after taxation and preference dividend}}{\text{share capital and reserves (excluding pref.share capital)}} \times 100$$

$$ROE = \frac{112000}{700000} \times 100$$

16%

C. Operating profit margin = $\frac{\text{Profit after interest and taxation}}{\text{revenue/sale}} \times 100$

$$\frac{112000}{2000000} \times 100$$

5.60%

D. Gross Profit Margin : $\frac{\text{Gross profit}}{\text{revenue/sales}} \times 100$

$$\frac{500000}{2000000} \times \times 100$$

25%

2. Liquidity Ratios

a. Current Ratio: current assets

current liabilities

760000

700000

1.09%

1.09:1

b. Acid-Test Ratio: current asset - in

current liabili

760000-500000

700000

260000

700000

0.37

0.37:1

3. Working Capital Efficiency Ratio

a. Average collection period = Trade Receivables X 12 months

Credit sales

220,000 X 365 days

2000000

36.5 =37 days

b. Average payable period = Trade payables X 365 days

purchases

172800 x 365 days

1080000

58.4= 58 days

c. Inventory turnover period = Inventory x 365 days

cost of sale

500000 x365

1500000

121.67 = 122 days

B. Profitability ratio

The profitability ratio of Ajanaku plc shows that the firm is efficient in generating profit from every unit of shareholde
its return on both equity and capital employed is high, the profi margin shows that the company is efficient in using it
Also, looking at the company's gross profit margin indicates that the company efficiently manages its cost of product
like, marketing, research and development etc.

Liquidity Ratio

the acid- test ratio of Ajanaku plc is very low and would not be easily convertible to cash to pay off its current liabiliti
Ajanaku plc may not be able to meet its short term debts at short notice if it sells off its liquid assets.
the current ratio shows that the company has relatively low resources to pay its debt over the next twelve months.

Working Capital Efficiency Ratio

the inventory turn over period shows that the company takes too long to sell and replace inventory during a period,

COMPARISON

The liquidity ratio is too low compared with the profitability ratio, this will mean that the company may become burde
the profit the company is making will not suffice, in paying those debts.
The liquidity ratio is also low in coparison with the working capital efficiency ratio because the company does not hav
The company is making high profits, but has weaknesses in its working capital efficiency and liquidity ratio. The comp

rs equity.
s resources and generates high income from its operations.
:ion and may have money leftover to spend on other business operations

es or meet its short term obligations.

otherwise, theother ratios are of reasonable standards.

ned with debt and may face default risk which

e enough liquid assets which will also affect working capital.
any must improve in these areas to maintain its growth and continue.