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19/sms02/053

*Profitability ratio
*liquidity
*Working capital efficieny ratio
B. comment on the liquidity of Ajahaku plc stating the refund point to which relevant ratio can be comp

Profitability ratio
return on capital employed
ROCE = Profit before interest and taxation * 100
capital employed
ROCE= 220,000 *100
700,000
16

b] Return on equity/ return on share holder capital

ROE/ROSE= PROFIT AFTER TAXATION AND PREFERENCE DIVIDEND *100
SHARE CAPITAL AND RESERVES EXCLUDING PREFERENCE SHARE CAPITAL
112,000
700,000 *100
16

C] Operating profit margin = 11 112,000 *100
2,000,000
5.6

d] Gross profit margin = Gross profit *100
Revenue/sales

500,000 *100
2,000,000
400

2]
Liquidity ratio
current ratio = Current assets
Current liability

760,000
700,000
1.086
1.09

1 1.09:1

LIQUIDITY RATIO = Current asset - inventories / Current liabilities

760,000- 500,000 = 260,000 / 700,000 0.37

3]

Working capital ratio

Average coolection period = Trade receivable / Credit sales *365 days

200,000 / 2,000,000 *365 days

365=37days

Average payable period= Trade payables / purchases *365

172,800 / 1,080,000 *365days

58days

c] inventory Turnover period= inventory / cost of sale *365

500,000 / 1,500,000 *365days

122days

Profitability Ratio

Ajanuku plc's return on capital employed, return on equity and gross profit margin are ve
The profit margin indicates that the business is making a good profit which could be due to succ
marketing or due to the low cost price.

Working capital efficiency ratio

The ratio appears to be good by the general standard acceptable inventory turnover perioc
means that the business inventory turnover period is too high hence it is inefficient.

Liquidity ratio

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

Comparison

Liquidity ratio is low in comparison with a profitable ratio. The lower the liquidity ratio the lov profitability ration in the sense that this because Ajanuku plc doesn't have enough current asset its debt even though they make profit. The profit won't be enough because they have to set asic reserves.

Liquidity ratio is low in comparison with working capital ratio because the liquidity is below stan industry resource which affects the working capital because it has less liquidity resource unable to make debt payments

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

ery high.
essful

d. Which

this implies

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: to cover
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ndard the
es which is

g capital
nd grow.