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**DEPT: ECONOMICS** 

MATRIC no: 18/sms01/029

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*Profitability ratio
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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 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 =  $11 \frac{112,000}{1} *100$ 

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

<sup>\*</sup>liquidity

<sup>\*</sup>Working capital efficieny ratio

LIQUIDITY RATIO = <u>Current asset - inventories</u> Current liabilities

760,000- 500,000 = <u>260,000</u> 0.37

700,000

3]

Working capital ratio

Average coolection period = <u>Trade receivable</u> \*365 days

Credit sales

200,000 \*365 days

2,000,000

365=37days

Average payable period= <u>Trade payables</u> \*365

purchases

172,800 \*365days

1,080,000

58days

c] inventory Turnover period= <u>inventory</u> \*365

cost of sale

500,000 \*365days

1,500,000

122days

# **Profitability Ratio**

The 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.

# Working capital efficiency ratio

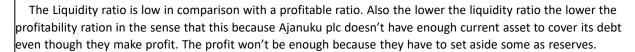
This ratio appears to be good by the general standard acceptable inventory turnover period. Which means that the business inventory turnover period is too high hence it is inefficient.

#### Liquidity ratio

This Deals with 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.

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#### Comparison



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