Name: Adekoya Ademiladeogo

Matric. No: 18/SMS02/003

Department: Accounting

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1. 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

ROE/ROSE= PROFIT AFTER TAXATION AND PREFERENCE DIVIDEND *100

SHARE CAPITAL AND RESERVES EXCLUDING PREFERENCE SHARE CAPITAL

112000 *100

700000

=16

] Operating profit margin = 112,000 *100 112,000 *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 = <u>Current assets</u>

Current liabilities

<u>760,000</u>

700,000

=1.086

<u>1.09</u>

=1 1.09:1

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 collection period = <u>Trade receivable</u> *365 days

Credit sales

<u>200,000</u> *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= inventory *365

cost of sales

500,000 *365days

1,500,000

=122days

- Profitability Ratio

  Ajanuku plc's return on capital employed and return on equity and gross profit margin is extremely high.The profit margin indicates that the business is making a good profit.

- Working capital efficiency ratio

  The ratio appears to be good by the general standard acceptable inventory turnover period. Which means that because business inventory turnover period is too high, it will be inefficient.

- Liquidity ratio

  The current and the quick-acid test ratios are well below the standard industry averages this implies that Ajanaku plc is low on liquidity resources or is managingits working capital.

- Comparison

  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.

  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.

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