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Ratio Analysis

(1) Profitability ratio

(a) Return on Capital Employed

ROCE = Profit before interest and taxation * 100
Capital Employed

Capital Employed= share of capital and reserve + Long term debt capital
= 500,000 + 200,000 + 200,000
= 700,000 + 200,000 = 900,000

Therefore; ROCE= 220,000 * 100
(CE) 900,000
ROCE= 24.44%

(b) ROE/ROSC= Profit after taxation and preference dividend * 100
Share capital and reserves (excluding preference share)

ROE/ROSC= 112,000 * 100
(SCR) 700,000
ROE/ROSC= 16%

(c) Operating Profit Margin

OPM= Profit after interest and taxation * 100
Revenue (sales)

OPM= 112,000 * 100
(R) 2,000,000
OPM= 5.6%

(d) Gross profit margin= Gross profit * 100
Revenue/sales

Revenue.	2,000,000
Cost of sales.	- 1,500,000
Gross profit.	=500,000

(2) Liquity ratio

(a) Current ratio= Current Asset
Current liabilities

CR= (CA) 760,000
(CL) 700,000
CR = 1.0851 i.e 1.09

(b) Liquidity/ Quick/ Acid Test Ratio

Acid Test Ratio= Current Asset - Inventories
Current liabilities

ATR = (CA) 760,000 - (I) 500,000
(CL) 700,000

ATR= (CA-I) 260,000
(CL) 700,000
ATR= 0.37

(3) Working Capital Efficiency Ratio

(a) Average collection period= Trade Receivable * 365
Credit Sales
ACP= (TR) 200,000 * 365
(CR) 2,000,000
ACP= 36.5 days
(b) Inventory Turnover period= Inventory * 365
Cost of Sales
ITP= (I) 500,000 * 365
(COS) 1,500,000
ITP= 14.67 days
(c) Average payable period= Trade payable * 365
Purchases
APP= (TP) 172,800 * 365
(I) 1,080,000
APP= 58.4 days
Profitability Ratio
Ajanuku plc's return on capital employed, return on equity and gross profit margin are very high. The p
Working capital efficiency ratio
The ratio appears to be good by the general standard acceptable inventory turnover period. Which me
Liquidity ratio
The current and the quick[acid test] ratios are well below the standard industry averages this implies t
Comparison
Liquidity ratio is low in comparison with a profitable ratio. The lower the liquidity ratio the lower the p
reserves

Liquidity ratio
The current and the quick[acid test] ratios are well below the standard industry averages this implies t
Comparison
Liquidity ratio is low in comparison with a profitable ratio. The lower the liquidity ratio the lower the p
Liquidity ratio is low in comparison with working capital ratio because the liquidity is below standard t
In conclusion, there is a strong profit but there are weaknesses in both the liquidity and working capita

profit margin indicates that the business is making a good profit which could be due to successful marke

profitability ration in the sense that this because Ajanuku plc doesn’t have enough current asset to cover

profitability ration in the sense that this because Ajanuku plc doesn’t have enough current asset to cover
he industry resource which affects the working capital because it has less liquidity resources which is un
al efficiency ratio. These problem need to be attended to if the business wants to remain strong and gro

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e as reserves.