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DEPARTMENT: ECONOMICS

COURSE: ACC 202

ASSIGNMENT

* 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 compared.

Profitability ratio

**Return on capital employed**

ROCE = Profit before interest and taxation \* 100

 Capital employed

ROCE= 220,000 \*100

 700,000

ROCE= 31

b] Return on equity/ return on share holder capital

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

 100 SHARE CAPITAL AND RESERVES EXCLUDING PREFERENCE SHARE CAPITAL

ROE/ROSE = 112000 \*100 = 160

 700,000

C] Operating profit margin = 112,000 \*100 = 56

 2,000,000

 d] Gross profit margin = Gross profit \*100

 Revenue/sales

 =500,000 \*100 = 25

 2,000,000

2] Liquidity ratio

current ratio = Current assets

 Current liability

 =760,000 = 1.09

 700,000

LIQUIDITY RATIO = Current asset - inventories

 Current liabilities

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

 700,000

 3] Working capital ratio

Average collection period = Trade receivable \*365 days

 Credit sales

 =200,000 \*365 days

 2,000,000

 =37days

 Average payable period= Trade payables \*365

 purchases

 =172,800 \*365days

 1,080,000

 =58days

Inventory Turnover period= inventory \*365

 cost of sale

 =500,000 \*365days

 1,500,000

 =122days .

**Profitability Ratio**

 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**

 The 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**

 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. **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 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.