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Answer.

Ajanaku Plc

A.

vi.

Stability/Gearing Ratios:

a. (i) Debt to Equity Ratio $= \frac{\text{Long term debt}}{\text{Share capital + Reserves}} \times 100$

$= \frac{200000}{400000 + 500000} \times 100$

$= \frac{200000}{900000} \times 100$

$= 0.222222222 \times 100$

$= 22.20\%$

(ii) Gearing Ratio $= \frac{\text{Long term debt}}{\text{Share capital + Reserves + Long term debt}} \times 100$

$= \frac{200000}{400000 + 500000 + 200000} \times 100$

$= \frac{200000}{1,100,000} \times 100$

$= 0.181818182 \times 100$

$= 18.18\%$

b. Interest cover $= \frac{\text{Profit before interest and tax}}{\text{Interest charges in the year}}$

$= \frac{220000}{20000}$

$= 11$

Investors'/Shareholders Ratios:

a. Basic Earnings per Share(EPS) $= \frac{\text{Profit attributable to ordinary shareholders during the period}}{\text{Weighted average number of shares in issue during the period}}$

$= \frac{112000}{200000}$

$= 0.56$

b. Dividend per Share (DPS) $= \frac{\text{Total dividend}}{\text{Number of ordinary shares in issue}}$

$= \frac{53600}{200000}$

$= 0.268$

c. Price/Earnings Ratio (P/E Ratio) $= \frac{\text{Market Price per share}}{\text{Earnings per share}}$

$= \frac{4}{0.56}$

$= 7.142857143$

d. Earnings Yield $= \frac{\text{Earning per share}}{\text{Market Price per share}}$

$= \frac{0.56}{4}$

$= 0.14$

e. Dividend Yield $= \frac{\text{Dividend per share}}{\text{Market price per share}}$

$= \frac{0.268}{4}$

$= 0.067$

f. Dividend Cover $= \frac{\text{Earnings per share}}{\text{Dividend per share}}$

$= \frac{0.56}{0.268}$

$= 2.089552239$

Activity Ratios:

a. Inventory Turnover $= \frac{\text{Sales X 365 days/52 weeks/12months}}{\text{Closing inventory}}$

$= \frac{2000000}{500000} \times 52\text{weeks}$

$= 4 \times 365\text{(days)}$

$= 1460$

Inventory turned over 1460 times daily during the period

b. Asset Turnover $= \frac{\text{Revenue (Sales)}}{\text{Total Assets/Non-current Asset/Net Assets}}$

$= \frac{2000000}{1600000}$

$= 1.25$

B.....

The gearing ratio is seen to be 18.18% which shows that the company is lowly geared, because it gets most of its funding from its equity and not debt. The reference points for which relevant ratios can be compared are ;

1. Above 50% - This means the company is "Highly geared" and that in turn means that it's funding is mostly done by debt (It is considered as high risk for the investors)
2. Between 25% to 50% - This means that the company is "Healthy geared" and this further means that its funding is equally to fairly done by both debt and equity.(It is considered as medium risk for investors, it is the most optimal gearing ratio)
3. Below 25% - This means that the company is "Lowly geared" this means it's funding is mainly by equity. (It is typically considered low-risk by both investors and lenders)