NAME :	NZEGWU AFOMACHUKWU UDOLISA
MATRIC NO:	18/sms02/040
DEPARTMENT:	Accounting
COURSE:	ACC 202
DATE:	28-May-20

ILLUSTRATION 1

1 Compute the following Ratios:

A. iv,v,vi

IV.Stabilty/ Gearing Ratio

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

$\dfrac{200{,}000}{400000+\quad 500{,}000}$ x 100

$\dfrac{200{,}000}{900{,}000}$ x 100

0.2222 x 100

22.22%

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

$\dfrac{200000}{400000+ 500000+ 200000}$ x 100

$\dfrac{200000}{1{,}100{,}000}$ x 100

0.181818182 x100

18.18%

b Interest Cover = $\frac{\text{Profit before intrest and Tax}}{\text{Interest charges in the year}}$

$\frac{220000}{20000}$

11

Interest payment is covered 11 times

V. Investors/Shareholders Ratio

a Bais Earnings per Share= $\frac{\text{Profit Attributable to ordinary shareholders during the period}}{\text{Weighted average number of shares in issue during the period}}$

$\frac{112000}{200000}$

₦ 0.56 or 56Kobo

b Dividend per Share= $\frac{\text{Total dividend}}{\text{Number of Ordinary shares in issue}}$

$\frac{53600}{200000}$

₦ 0.27 or 26.8Kobo

c Price/Earnings Ratio $\frac{\text{Market Price per Share}}{\text{Earnings per share}}$

₦ 4.00 or 400kobo

₦ 0.56 56Kobo

7.142857143
7:01

d Earnings Yield $\dfrac{\text{Earning per share}}{\text{Market price per share}}$

$\dfrac{₦\ 0.56}{₦\ 4.00}$

₦ 0.14

e Dividend Yield $\dfrac{\text{Dividend per share}}{\text{Market price per share}}$

$\dfrac{₦\ 0.27}{₦\ 4.00}$
0.0675

₦ 0.07 or 6.75%

f Dividend Cover $\dfrac{\text{Earnings per Share}}{\text{Dividend per Share}}$

$\dfrac{₦\ 0.56}{₦\ 0.27}$

2.074074074

VI. Activity Ratios

a Inventory Turnover= $\dfrac{\text{Sales} \qquad \text{x 365days/52weeks/12months}}{\text{Closing Inventory}}$

$$\frac{2000000}{500000} \times 12 \text{ months}$$

4 x 12 months

48

Inventory turned over 48times during the period

b Assets Turnover= $\frac{\text{Revenue(sales)}}{\text{Total Assets/Non-Current Asset/Net Assets}}$

$$\frac{2000000}{1600000}$$

$$\frac{5}{4}$$

1.25

2 Comment on the gearing of Ajamaku Plc, stating the reference points to which relevant ratios can be compared.

Gearing ratio measures the level of owners equity compared with external borrowing.

It is prefarable to have more equity than debt in a business

Since the regular standard for a gearing ratio is 25%-50%, the gearing ratio from the question is 18.18%, it signifies that the company is lowly geared, that there is more of equity than borrowing or that it has small percent of debt than equity.

The 18.18% gearing ratio shows that the company is more funded by shareholders instead of creditors because it shows that the level of stability of the company is highly financed which is a good thing.