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 18/SMS02/042

\*Profitability ratio

\*liquidity

\*Working capital efficiency ratio

B. comment on the liquidity of Ajahaku plc stating the refund point to which relevant ratio can be comp

Profitability ratio

$$\text{ROCE} = \frac{\text{return on capital employed}}{\text{capital employed}} * 100$$

$$\text{ROCE} = \frac{220,000}{700,000} * 100$$

16

b] Return on equity/ return on share holder capital

$$\text{ROE/ROSE} = \frac{\text{PROFIT AFTER TAXATION AND PREFERENCE DIVIDEND}}{\text{SHARE CAPITAL AND RESERVES EXCLUDING PREFERENCE SHARE CAPITAL}} * 100$$

$$\frac{112,000}{700,000} * 100$$

16

C] Operating profit margin =  $\frac{112,000}{2,000,000} * 100$

5.6

d] Gross profit margin =  $\frac{\text{Gross profit}}{\text{Revenue/sales}} * 100$

$$\frac{500,000}{2,000,000} * 100$$

400

2]

Liquidity ratio

current ratio =  $\frac{\text{Current assets}}{\text{Current liability}}$

$$\frac{760,000}{700,000}$$

1.086

1.09

$$\text{LIQUIDITY RATIO} = \frac{\text{Current asset - inventories}}{\text{Current liabilities}}$$

$$760,000 - 500,000 = \frac{260,000}{700,000} \quad 0.37$$

3]

Working capital ratio

$$\text{Average collection period} = \frac{\text{Trade receivable}}{\text{Credit sales}} * 365 \text{ days}$$

$$\frac{200,000}{2,000,000} * 365 \text{ days} \\ 365 = 37 \text{ days}$$

$$\text{Average payable period} = \frac{\text{Trade payables}}{\text{purchases}} * 365$$

$$\frac{172,800}{1,080,000} * 365 \text{ days} \\ 58 \text{ days}$$

$$\text{c) inventory Turnover period} = \frac{\text{inventory}}{\text{cost of sale}} * 365$$

$$\frac{500,000}{1,500,000} * 365 \text{ days} \\ 122 \text{ days}$$

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### **Profitability Ratio**

Ajanuku plc's return on capital employed, return on equity and gross profit margin are ve  
The profit margin indicates that the business is making a good profit which could be due to succ  
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  
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 t  
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 low profitability ration in the sense that this because Ajanuku plc doesn't have enough current asset its debt even though they make profit. The profit won't be enough because they have to set asic reserves.

Liquidity ratio is low in comparison with working capital ratio because the liquidity is below stan industry resource which affects the working capital because it has less liquidity resource unable to make debt payments

In conclusion, there is a strong profit but there are weaknesses in both the liquidity and working efficiency ratio. These problem need to be attended to if the business wants to remain strong ar

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