

SOLUTIONS

AJANAKU PLC

A.

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Stability/Gearing Ratios

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

$$\frac{200000 \times 100}{400000 + 500000}$$
$$= \frac{200000 \times 100}{900000}$$

$$= 0.222222 \times 100$$

$$= 2222.22\%$$

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

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

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

$$= 0.181818182 \times 100$$

$$= 1818.18\%$$

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

$$= \frac{220000}{20000}$$

$$= 11$$

Investors'/Shareholders Ratios:

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

$$= \frac{112000}{200000}$$

$$= 0.56$$

$$\begin{aligned}
 \text{b. Dividend per share (DPS)} &= \frac{\text{Total dividend}}{\text{Number of ordinary shares in issue}} \\
 &= \frac{53600}{200000} \\
 &= 0.268
 \end{aligned}$$

$$\begin{aligned}
 \text{c. Price/Earnings Ratio (P/E Ratio)} &= \frac{\text{Market Price per share}}{\text{Earnings per share}} \\
 &= \frac{4}{0.56} \\
 &= 7.142857
 \end{aligned}$$

$$\begin{aligned}
 \text{d. Earnings Yield} &= \frac{\text{Earnings per share}}{\text{Market price per share}} \\
 &= \frac{0.56}{4} \\
 &= 0.14
 \end{aligned}$$

$$\begin{aligned}
 \text{e. Dividend Yield} &= \frac{\text{Dividend per share}}{\text{Market price per share}} \\
 &= \frac{0.268}{4} \\
 &= 0.067
 \end{aligned}$$

$$\begin{aligned}
 \text{f. Dividend cover: Profit attributable to ordinary shareholders (earnings)} &= \frac{\text{Profit attributable to ordinary shareholders (earnings)}}{\text{Dividends}} \\
 &= \frac{112000}{53600} \\
 &= 2.089552
 \end{aligned}$$

Activity ratios:

$$\begin{aligned}
 \text{a. Inventory turnover} &= \frac{\text{Sales} \times 365 \text{ days} / 52 \text{ weeks} / 12 \text{ months}}{\text{Closing inventory}} \\
 &= \frac{2000000 \times 12 \text{ (months)}}{500000}
 \end{aligned}$$

$$= 4 \times 12 \text{ (months)}$$

$$= 48$$

Inventory turned over 48 times monthly

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

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

$$= 1.25$$