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ASSIGNMENT

The Performance of Ajanaku Plc

1

Gearing Ratio

Debt to Equity ratio

$$\frac{\text{Long term debt}}{\text{Share capital + Reserves}} \times 100 = \frac{200000}{400,000 + 400,000 + 100,000} \times 100 = 22.22$$

Gearing Ratio

$$\frac{\text{Long term debt}}{\text{Share capital + Reserves + Long term debt}} \times 100 = \frac{200000}{400,000 + 400,000 + 100,000 + 200,000} \times 100 = 18.18182$$

2

Investors Ratio

Dividend per Share

$$\frac{\text{Total dividend}}{\text{Number of ordinary shares in issue}} = \frac{53,600}{200,000} = 0.268$$

Basic Earnings per Share

$$\frac{\text{Profit attributable to ordinary shareholders during the period}}{\text{Weighted average of shares in issue during te period}} = \frac{112,000}{200,000} = 0.56$$

Price/Earnings Ratio

$$\frac{\text{Market Price per Share}}{\text{Earnings per Share}} = \frac{4}{0.56} = 7.1429$$

Earnings Yield

Earnings per Share = 0.56 = 0.14

| | | | | |
|---|---|---|---|---|
| Market Price per Share | | 4 | | |
| **Dividend Yield** | | | | |
| Dividend per Share | = | 0.268 | = | 0.067 |
| Market price per Share | | 4 | | |

3

Activity Ratio

| | | | | |
|---|---|---|---|---|
| **Inventory Turnover** | | | | |
| Sales | = | 2,000,000 | = | 4 |
| Closing Inventory | | 500,000 | | |
| **Asset Turnover** | | | | |
| Revenue(Sales) | = | 2,000,000 | = | 1.25 |
| Total Assets/Non-current assets | | 1,600,000 | | |

B.

The gearing ratio of Ajanaku Plc is 18.18% which signifies that the company is lowly geared due to the fact that the optimal gearing ratio of any company is between 25%-50% . This means there is a low proportion or percent of debt over equity meaning that the equity contributed by shareholders was more than debt or money contributed by lendors and this makes it a low risk. A low gearing ratio is considered low risk between shareholders and investors because most of te money contributed was from the shareholders. Therefore, the gearing ratio of Ajanaku Plc is a good ratio that has low risk because it is below 25% and tis low risk reduces the possibility of failure of the