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*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 compared.

Profitability ratio return on capital employed

ROCE = Profit before interest and taxation * 100 capital employed

ROCE= $\frac{220,000}{700,000}$ *100 16

b] Return on equity/ return on share holder capital

ROE/ROSE= PROFIT AFTER TAXATION AND PREFERENCE DIVIDEND *100
SHARE CAPITAL AND RESERVES EXCLUDING PREFERENCE SHARE CAPITAL

$\frac{112,000}{700,000}$ *100 16 C] Operating profit margin = 11 $\frac{112,000}{2,000,000}$ *100

5.6

d] Gross profit margin = Gross profit *100 Revenue/sales $\frac{500,000}{2,000,000}$ *100 400

2] Liquidity ratio current ratio = Current assets Current liability

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

1.086

$\frac{1.09}{1}$ 1.09:1

LIQUIDITY RATIO = Current asset - inventories

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

3]

Working capital ratio

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

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

365=37days

Average payable period= Trade payables *365 purchases

172,800 / 1,080,000 *365days

58days

c] inventory Turnover period= inventory *365 / cost of sale

500,000 / 1,500,000 *365days

122days

Profitability Ratio

Ajanuku plc's return on capital employed, return on equity and gross profit margin are very high. The profit margin indicates that the business is making a good profit which could be due to successful 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. Which 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 this implies that Ajanaku plc is either short of liquidity resources or is managing its working capital.

Comparison

Comparison

Liquidity ratio is low in comparison with a profitable ratio. The lower the liquidity ratio the lower the profitability ration in the sense that this because Ajanuku plc doesn't have enough current asset to cover its debt even though they make profit. The profit won't be enough because they have to set aside some as reserves.

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

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

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