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| ACC202 | | | | | |
| 19/SMS01/027 | | | | | |
| \*Profitability ratio | | | | | |
| \*liquidity | | | | | |
| \*Working capital efficieny 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= | 220,000 | \*100 |  |  |  |
|  | 700,000 |  |  |  |  |
|  | 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 | | | | | |
|  | 112,000 |  |  |  |  |
|  | 700,000 | \*100 |  |  |  |
|  | 16 |  |  |  |  |
| C] Operating profitmargin= 11 | | | 112,000 | \*100 |  |
| 2,000,000 | | | | | |
|  |  |  | 5.6 |  |  |
| d] Gross profit margin = Gross profit | | |  | \*100 |  |
| Revenue/sales | | | | | |
|  | 500,000 | \*100 |  |  |  |
|  | 2,000,000 |  |  |  |  |
|  |  | 400 |  |  |  |
| 2] |  |  |  |  |  |
| Liquidity ratio | | | | | |
| current ratio = Current assets | | | | | |
| Current liability | | | | | |
|  | 760,000 |  |  |  |  |
|  | 700,000 |  |  |  |  |
|  |  | 1.086 |  |  |  |
|  |  | 1.09 |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| 1 | 1.09:1 |  |  |
| LIQUIDITY RATIO =Current asset - inventories | | | |
| Current liabilities | | | |
| 760,000- 500,000 = | | 260,000 | 0.37 |
|  |  | 700,000 |  |
| 3] |  |  |  |
| Working capital ratio |  |  |  |
| Average coolection period = | Trade receivable | | \*365 days |
| Credit sales | | | |
|  | 200,000 | \*365 days |  |
|  | 2,000,000 |  |  |
| 365=37days | | | |
| Average payable period= | Trade payables | | \*365 |
|  | purchases |  |  |
|  |  | 172,800 | \*365days |
|  |  | 1,080,000 |  |
|  |  |  | 58days |
| c] inventory Turnover period= | inventory | \*365 |  |
|  | cost of sale | |  |
|  | 500,000 | \*365days |  |
|  | 1,500,000 |  |  |
|  |  | 122days |  |

**Profitability Ratio**

Ajanukuplc’sreturnoncapitalemployed,returnonequityandgrossprofitmarginareveryhigh. Theprofitmarginindicatesthatthebusinessismakingagoodprofitwhichcouldbeduetosuccessful marketing or due to the low costprice.

**Working capital efficiency ratio**

Theratioappearstobegoodbythegeneralstandardacceptableinventoryturnoverperiod.Which meansthatthebusinessinventoryturnoverperiodistoohighhenceitisinefficient.

**Liquidity ratio**

Thecurrentandthequick[acidtest]ratiosarewellbelowthestandardindustryaveragesthisimplies thatAjanakuplciseithershortofliquidityresourcesorismanagingitsworkingcapital.

**Comparison**

Liquidityratioislowincomparisonwithaprofitableratio.Thelowertheliquidityratiothelowerthe profitabilityrationinthesensethatthisbecauseAjanukuplcdoesn’thaveenoughcurrentassettocover

itsdebteventhoughtheymakeprofit.Theprofitwon’tbeenoughbecausetheyhavetosetasidesomeas reserves.

Liquidityratioislowincomparisonwithworkingcapitalratiobecausetheliquidityisbelowstandardthe industryresourcewhichaffectstheworkingcapitalbecauseithaslessliquidityresourceswhichis unable to make debtpayments

Inconclusion,thereisastrongprofitbutthereareweaknessesinboththeliquidityandworkingcapital efficiencyratio.Theseproblemneedtobeattendedtoifthebusinesswantstoremainstrongandgrow.