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TITLE OF PAPER: ACCOUNTING RATIOS.

NAMES OF COMPANIES ANALYSED: GUINNESS NIGERIA AND HONEYWELL FLOUR MILLS.

 Ratio analysis and interpretation on Guinness Nigeria annual report and financial statements of 2017.

Short term solvency and liquidity ratio.

1. Current ratio= current assets / current liabilities

=57,226,823 / 63,719,662

=0.89.

This low current ratio means that the business or company will not be able to pay its future bills on time, particularly if a slow down occurs in collection from debt.

1. Acid test ratio=current assets – inventory / current liabilities

=57,226,823 – 23,094,499 / 63,719,662

=0.53.

This acid test ratio is below 1:1 which means that the company could survive very well.

1. Inventory turnover period= average inventory / cost of sales × 12

=18,057,873.5 / 77,604,513 × 12

=2.79.

This ratio measures the average number of days’ inventory will remain in the store before being sold.

1. Inventory turnover=cost of sales / average inventory=x times

=77,604,513 / 18,057,873.5

=4.29 times.

This higher inventory turnover means that the higher the higher the inventory turnover the higher the repeated profit and vice versa. It could also be an indication of over trading.

Efficiency\Profitability ratio.

1. ROCE=Profit(return)/capital employed

=10,186,330 / 82,318,554

=0.12.

This means that the company overall profitability of the business and its efficiency is high.

1. EBIT=Earnings before interest & tax / Equity + debt

=2,662,081 / 42,943,015 + 1,350,631(deferred tax liabilities)

=2,662,081 / 44,293,646

=0.60.

1. Gross profit percentage=Gross profit / sales × 100%

=48,315,304 / 125,919,817 × 100%

=0.38%.

This gross profit as the percentage of goods sold is 0.38%.

1. Net profit percentage=Net profit / sales × 100%

=9,338,997 / 125,919,817 × 100%

=0.07%.

The net profit percentage is 0.07%.

1. Expenses percentage=Individual expenses / total expenses × 100%

=11,545,819 / 116,580,820 × 100%

=0.09%.

This means that the relative weight of each item of expense in relation to total expenses is 0.09%

1. Expenses to sales=Individual expenses / sales × 100%

=11,545,819 / 125,580,820 × 100%

=0.09%.

The ratio decreased in respect of an expense that expense must have caused a detrition in profit because it has fallen at a faster rate than sales.

Ratio analysis and interpretation on Honeywell flour mills plc financial statements and annual report for the year 2017.

Short term solvency and liquidation ratio.

1. Current ratio=Current assets / Current liabilities.

=13,011,890 / 26,318,698

=0.49.

This low current ratio means that the business or company will not be able to pay its future bills on time, particularly if a slow down occurs in collection from debt.

1. Acid test ratio=Current assets – Inventory / Current liabilities.

= 13,011,890 – 4,515,525 / 26,318,698

= 0.32.

This acid test ratio is below 1:1 which means that the company could survive very well.

1. Inventory turnover period=Average inventory / Cost of sales × 12

= 10,101,609 / (40,515,269) × 12

= (2.99).

This ratio measures the average number of days’ inventory will remain in the store before being sold.

1. Inventory turnover=Cost of sales / Average inventory= x times.

= (40,515,269) / 10,101,609

= (4.01).

This lower inventory turnover means that the lower the inventory turnover the lower the repeated profit and vice versa. It could also be an indication of no over trading.

Efficiency\Profitability ratio.

1. ROCE= Profit(return) / capital employed

= (1,726,849) / (86,833,016)

=0.01.

This means that the company overall profitability of the business and its efficiency is low.

1. EBIT= Earnings before tax & interest / Equity + debt

=5,469,833 / 52,334,665 + 60,817,049

=0.04.

1. Gross profit percentage= Gross profit / Sales × 100%

=12,712,622 / 53,227,891 × 100%

=0.23%.

This gross profit as the percentage of goods sold is 0.23%.

1. Net profit percentage= Net profit / sales × 100%

=58,889,571 / 53,227,891 × 100%

=1.10%.

This means that the relative weight of each item of expense in relation to total expenses is 1.10%.

1. Expenses percentage= Individual expenses / total expenses × 100%

=

Investors\shareholder’s ratio.

1. Earnings per share= PAT – Preference divided / no of ordinary shares issued.

= 4,304,955 – 2,854,868,754 / 3,965,099

= (718.9) kobo.

It is an indication of the amount of net profit after tax and preference divided attributable to each ordinary share in issue.