

NAME – FRENCH OVONOMO

DEPT – ACCOUNTING

LEVEL – 300

MATRIC NUM – 17/SMS02/017

COURSE CODE – ACC302

TERM PAPER ON ACCOUNTING RATIOS FOR COMPANIES IN THE STOCK EXCHANGE.

COMPANIES SELECTED ARE;

Basic materials

- Berger paints pls [2019]
- CAP plc [2018]

Consumer Goods

- Guinness [2019]
- Presco [2018]

Consumer services

- Ikeja Hotels [2018]
- Capital Hotels [2018]

Telecommunications

- E-Tranzact PLC [2018]
- Chams [2019]

Health Care

- Glaxosmithkline PLC [2019]
- MAY and BAKER [2018]

Industrials

- Dangote Cement [2018]
- Beta Glass [2018]

Oil and Gas

- Seplat [2019]
- Mobil [2018]

Financials

BASIC MATERIALS

Ratio Analysis of Berger Paints 2019 Annual Report

Short Term Solvency and Liquidity Ratios

- Current Ratio = $\frac{\text{current assets}}{\text{current liabilities}}$
= $\frac{1,773,609}{1,488,025}$

=1.2:1

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.2:1 which is not totally safe but manageable but then its advised that the company should put more effort for the coming years to avoid future problems.

- Quick asset or acid test ratio = $\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$
= $\frac{1,773,609 - 812,048}{1,488,025}$

=0.6:1

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.6:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables Collection Period = $\frac{\text{average trade receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average trade receivables = $\frac{330,541 + 190,982}{2}$

= 260,762

$$\text{Therefore, Receivables collection} = \frac{260,762}{3,594,804} \times 365 \text{days}$$

$$= 26.5 \text{ days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 26.5 approximately 27 days. That's to say it takes the company 27days to collect its receivables while that of the PPP is 136 days approximately, which gives the company time to utilize its cash.

- $\text{Payable Payment Period} = \frac{\text{Average trade payables}}{\text{credit purchases}} \times 365 \text{days}$

$$\text{Where average trade payables} = \frac{804,589 + 622,491}{2}$$

$$= 713,540$$

$$\text{Therefore, Payables payment period} = \frac{713,540}{1,920,480} \times 365 \text{days}$$

$$= 135.6 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 27 and PPP is 136 this simply means that the company has about 110 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored

- $\text{Inventory Turnover Period} = \frac{\text{average inventories}}{\text{cost of sales}} \times 365 \text{days}$

$$\text{Where average inventories} = \frac{812,048 + 606,712}{2}$$

$$= 709,380$$

$$\text{Therefore, inventory turnover period} = \frac{709,380}{1,920,480} \times 365 \text{days}$$

$$= 134.8 \text{ days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 134.8 approximately 135 days before inventory was sold which is not good as capital would be tied down and some goods may be damaged.

- Receivables Turnover = $\frac{\text{credit sales}}{\text{average receivables}}$
= $\frac{3,584,804}{260,792}$
= 13.7 times

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 13.7 times approximately 14 times in this reporting period. That's to say, the company collected its receivables 14 times this year.

- Payables Turnover = $\frac{\text{Credit purchases}}{\text{Average payables}}$
= $\frac{1,920,480}{713,540}$
= 2.7 times

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 2.7 times approximately 3 during this accounting period. That's to say, the company paid its payables 3 times during this accounting period.

- Inventory Turnover = $\frac{\text{Cost of sales}}{\text{Average inventory}}$
= $\frac{1,920,480}{709,380}$
= 2.7 times

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Hence, this means there was 2.7 inventory turns during this reporting year.

Efficiency/ Profitability Ratios

- Return on Capital Employed = $\frac{\text{profit after tax-preference dividend}}{\text{ordinary shareholder's fund}}$
 $= \frac{448,733-0}{3,073,400}$
 $= 0.15; 15\%$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE isn't so high.

- Gross Profit Percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$
 $= \frac{1,664,324}{3,584,804} \times 100\%$
 $= 46.4\%$

Interpretation; This ratio shows the average gross profit on goods sold, it also shows the profits relative to sales after deducting direct cost; the higher it is the better and vice versa. The gross profit margin in here is 46.4 % which shows a clear evidence of management efficiency with respect to efficient utilization of its assets to generate economic benefits and enhanced returns

- Net Profit Percentage = $\frac{\text{Net Profit}}{\text{sales}} \times 100\%$
 $= \frac{448,733}{3,584,804} \times 100\%$
 $= 12.5\%$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here, we see that there is a 12.5% profitability in the business after taking into accounts all incomes and expenses which is not safe at all and should be improved by reducing expense.

- Expenses Percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$

For selling and distribution expenses = $\frac{219,016}{1,202,411} \times 100\%$
 $= 18.2\%$

$$\text{For Admin expenses} = \frac{945,283}{1,202,411} \times 100\%$$

$$= 78.6\%$$

$$\text{For impairment losses} = \frac{38,112}{1,202,411} \times 100\%$$

$$= 3.2\%$$

Interpretation; this shows that administrative expenses carries a higher weight than selling and distribution expense and impairment losses in relation to the total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\text{For Selling and distribution exp} = \frac{219,016}{3,584,804} \times 100\%$$

$$= 6.1\%$$

$$\text{For Admin expenses} = \frac{945,283}{3,584,804} \times 100\%$$

$$= 26.4\%$$

$$\text{For impairment losses} = \frac{38,112}{3,584,804} \times 100\%$$

$$= 1.1\%$$

Interpretation; Here, Administrative expenses is seen to have caused a greater deterioration in profit than that of selling and distribution cost and impairment losses.

Investors/ Shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{preference dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{448,733,000 - 0}{289,823,447}$$

$$= \text{N}1.55; 155\text{kobo}$$

Interpretation; this is the amount of net profit attributable to each ordinary share issued during the accounting period, the higher it is, the better. Here the amount is 1550kobo.

- Price Earnings Ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{6.75}{1.55}$$

$$=4.4\text{times}$$

Interpretation; this shows that it takes the company 4.4years assuming current earnings are maintained and ignoring taxation of dividends to recoup shareholder's investment in either dividend received or capital growth arising from retained earnings.

- Earnings yield $=\frac{EPS}{MPS} \times 100\%$
 $=\frac{1.55}{6.75} \times 100\%$
 $=22.9; 23\%$

Interpretation; This shows that there were 22.9% potential returns on the shareholder's investment.

- Net Asset per share $=\frac{\text{Net asset} - \text{preference share capital}}{\text{no of ordinary share}}$
 $=\frac{3,073,400,000-0}{289,823,447}$
 $=\text{N}10.6; 1060\text{kobo}$

Interpretation; This shows that the amount of net assets attributable to each ordinary share in issue for that year was 1060kobo.

- Dividend per share $=\frac{\text{gross dividend}}{\text{no of ordinary shares}}$
 $=\frac{188,385,000}{289,823,447}$
 $=0.65; 65\text{kobo}$

Interpretation; This shows the amount of gross dividend declared on every issued ordinary share ranking for dividend. Here, an amount of 65kobo gross dividend was declared.

- Dividend pay-out ratio $=\frac{DPS}{EPS} \times 100\%$
 $=\frac{0.65}{1.55} \times 100\%$
 $=41.9\%$

Interpretation; this calculation shows that 41.9% of the company's distributable earnings was paid out to the ordinary shareholders in the firm in the form of dividend for that year.

- Dividend yield $=\frac{DPS}{MPS} \times 100\%$

$$= \frac{0.65}{6.75} \times 100\%$$

$$= 9.6\%$$

Interpretation; This ratio measures the current actual return on the shareholder's investment. It is a measure of the cost of equity; the higher it is, the more attractive the shares to them and vice versa. Here, there was a 9.6% return on the shareholders investments which is not so high and so can be improved.

- Dividend cover = $\frac{PAT - \text{pref dividend}}{\text{Gross dividend}}$

$$= \frac{448,733 - 0}{188,385}$$

$$= 2.4 \text{ times}$$

Interpretation; this shows the number of times ordinary dividend is covered by distributable earnings and for this accounting period it was 2.4 times.

Long Term Solvency

- Gearing ratio = $\frac{\text{Net Debt}}{\text{equity}}$

$$= \frac{1,776,360}{3,073,400}$$

$$= 0.58; 58\%$$

Interpretation; this shows that the company is lowly geared since it is lesser than one.

- Fixed interest capital = $\frac{PBIT}{\text{fixed interest}}$

$$= \frac{512,928}{1,776,360}$$

$$= 0.3 \text{ times}$$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa. But here, the ratio is low and this doesn't say well for the company has lenders would have problems trusting them.

- Total debt to SHF = $\frac{\text{non-current liabilities} + \text{current liabilities}}{\text{Equity}}$

$$\begin{aligned} &= \frac{505,024 + 1,488,025}{3,073,400} \\ &= 0.65; 65\% \end{aligned}$$

Interpretation; this measures the solvency of the business and indicates the extent of cover for external liabilities. Here, the company will need 65% of its equity to settle its total debts.

Ratio Analysis of CAP PLC 2018 Annual report

Short term solvency and liquidity ratio

- Current Ratio = $\frac{\text{current asset}}{\text{current liabilities}}$

$$\begin{aligned} &= \frac{5,545,093}{3,375,254} \\ &= 1.6:1 \end{aligned}$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.6:1 this is not the ideal ratio but it can be manageable as the company is able to settle its future bills on time and still have left over assets.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$

$$\begin{aligned} &= \frac{5,545,093 - 884,115}{3,375,254} \\ &= 1.4:1 \end{aligned}$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. Here the ratio is 1.4:1 meaning that the company would be able to settle all its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average trade receivables}}{\text{credit sales}} \times 365\text{days}$

$$\begin{aligned}\text{Where average trade receivables} &= \frac{172,488+110,700}{2} \\ &= 141,594\end{aligned}$$

$$\begin{aligned}\text{Therefore, receivables collection period} &= \frac{141,594}{7,764,534} \times 365\text{days} \\ &= 6.7\text{days}\end{aligned}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 6.7 approximately 7 days. That's to say it takes the company 7days to collect its receivables while that of the PPP is 121 days approximately, which gives the company time to utilize its cash.

- Payables Collection Period = $\frac{\text{average trade payables}}{\text{credit purchases}} \times 365\text{days}$

$$\begin{aligned}\text{Where average trade payables} &= \frac{1,559,016+1,130,834}{2} \\ &= 1,344,925\end{aligned}$$

$$\begin{aligned}\text{Therefore, payable payment period} &= \frac{1,334,925}{4,034,561} \times 365\text{days} \\ &= 120.8\text{days}\end{aligned}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 7 and PPP is 121 approximately this simply means that the company has about 114 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored.

- Inventory Turnover Period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365\text{days}$

$$\begin{aligned}\text{Where average inventory is} &= \frac{884,115+1,187,405}{2} \\ &= 1,035,760\end{aligned}$$

$$\begin{aligned} \text{Therefore, inventory turnover period} &= \frac{1,035,760}{4,034,561} \times 365 \text{days} \\ &= 93.7 \text{ days} \end{aligned}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 93.7 approximately 94 days before inventory was sold which is not good as capital would be tied down and some goods may be damaged.

- $\text{Receivables Turnover} = \frac{\text{credit sales}}{\text{Average receivables}}$

$$= \frac{7,764,534}{141,594}$$

$$= 54.8 \text{times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 54.8 times approximately 55 times in this reporting period. That's to say, the company collected its receivables 55 times this year which is quite high signifying overtrading for this year which is not good.

- $\text{Payables Turnover} = \frac{\text{credit purchases}}{\text{Average payables}}$

$$= \frac{4,034,561}{1,344,925}$$

$$= 2.9; 3 \text{times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over/ paid 2.9 approximately 3 times during the reporting period.

- $\text{Inventory Turnover} = \frac{\text{cost of sales}}{\text{Average inventory}}$

$$= \frac{4,034,561}{1,035,760}$$

$$= 3.4 \text{times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, this shows that there was 3.4 inventory turns in this reporting year.

Efficiency/ Profitability Ratio

- Return on Capital Employed = $\frac{PAT - Preference\ dividend}{ordinary\ shareholder\ funds}$
$$= \frac{2,029,343 - 0}{2,808,939}$$
$$= 0.7; 70\%$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is high.

- Gross profit percentage = $\frac{gross\ profit}{sales} \times 100\%$
$$= \frac{3,729,973}{7,764,534} \times 100\%$$
$$= 48.03\%$$

Interpretation; The gross profit margin in 2015 is 48.03% ok which shows a clear evidence of management efficiency with respect to efficient utilization of its assets to generate economic benefits and enhanced returns

- Net Profit percentage = $\frac{net\ profit}{sales} \times 100\%$
$$= \frac{2,029,343}{7,764,534} \times 100\%$$
$$= 26.13\%$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 26.13% which can be increased by reducing expenses that aren't necessary.

- Expenses percentage = $\frac{individual\ expenses}{total\ expenses} \times 100\%$
For Admin expenses = $\frac{1,149,872}{1,506,609} \times 100\%$
$$= 76.3\%$$

$$\begin{aligned} \text{For Selling and Distribution Expenses} &= \frac{356,737}{1,506,609} \times 100\% \\ &= 23.7\% \end{aligned}$$

Interpretation; this shows that administrative expenses carries a higher weight than selling and distribution expense in relation to their total expenses.

- Expense to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\begin{aligned} \text{For Admin expense} &= \frac{1,149,872}{7,764,534} \times 100\% \\ &= 14.8\% \end{aligned}$$

$$\begin{aligned} \text{For Selling and Distribution expense} &= \frac{356,737}{7,764,534} \times 100\% \\ &= 4.6\% \end{aligned}$$

Interpretation; Here, Administrative expenses is seen to have caused a greater deterioration in profit than that of selling and distribution expenses.

Investors/ Shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{preference dividend}}{\text{no of ordinary share issued}}$

$$= \frac{2,029,343 - 0}{700,000}$$

$$= 2.90; 290\text{kobo}$$

Interpretation; this indicates that there's 290kobo net profit attributable to each ordinary share in issue.

- Price Earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{34.85}{2.90}$$

$$= 12.02\text{times.}$$

Interpretation; this indicates that the company has about 12.02 years to recoup shareholders investment in the form of dividend received or capital growth from retained earnings if current earnings are maintained and taxation of dividend ignored.

- Earnings Yield = $\frac{\text{EPS}}{\text{MPS}} \times 100\%$

$$= \frac{2.90}{34.85} \times 100\%$$

$$= 8.3\%$$

Interpretation; this shows that there's an 8.3% potential return of shareholders' investments.

- Net Asset Per Share = $\frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary share issued}}$

$$= \frac{2,808,939 - 0}{700,000}$$

$$= \text{N}4.01; 401\text{kobo}$$

Interpretation; this indicates that there's a 401kobo net asset attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary share issued}}$

$$= \frac{2,030,000}{700,000}$$

$$= 2.9; 290\text{kobo}$$

Interpretation; this shows that there's 290kobo gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend Pay-out Ratio = $\frac{DPS}{EPS} \times 100\%$

$$= \frac{2.9}{2.9} \times 100\%$$

$$= 100\%$$

Interpretation; this indicates that a 100% of the company's distributable earnings were paid to ordinary shareholders in the form of dividend.

- Dividend Yield = $\frac{DPS}{MPS} \times 100\%$

$$= \frac{2.9}{34.85} \times 100\%$$

$$= 8.3\%$$

Interpretation; this indicates that there's currently an 8.3% actual return on shareholders' investments.

- Dividend Cover = $\frac{PAT - \text{pref dividend}}{\text{gross dividend}}$

$$\begin{aligned} &= \frac{2,029,343-0}{2,030,000} \\ &= 0.9; \text{ once} \end{aligned}$$

Interpretation; this measures the number of times ordinary dividend is covered by distributable earnings and here it is 0.9 approximately once.

Long Term Solvency

- Gearing Ratio = $\frac{\text{debt}}{\text{equity}}$

$$\begin{aligned} &= \frac{2,780,278}{2,808,939} \\ &= 0.9 \end{aligned}$$

Interpretation; this company is lowly geared.

- Fixed Interest capital = $\frac{\text{PBIT}}{\text{Fixed interest}}$

$$\begin{aligned} &= \frac{2,285,201}{2,708,278} \\ &= 0.8 \end{aligned}$$
- Total Debt to shareholders fund = $\frac{\text{NCL+CL}}{\text{shareholders fund}}$

$$\begin{aligned} &= \frac{3,502,307}{2,808,939} \\ &= 1.25; 125\% \end{aligned}$$

Interpretation; this shows the measure of the solvency of the business and indicates the extent of cover for external liabilities. Here the ratio is 125% that is needed of its equity to settle its total debts which is very high and not encouraging at all.

CONSUMER GOODS

Guinness Nigeria Plc 2019 ratio analysis

- Current Asset = $\frac{\text{current asset}}{\text{current liabilities}}$

$$\begin{aligned} &= \frac{59,344,022}{48,856,474} \\ &= 1.2:1 \end{aligned}$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.2:1 which is not totally safe but manageable but then it's advised that the company should put more effort for the coming years to avoid future problems.

- Acid Test Ratio = $\frac{59,344,022 - 25,180,431}{48,856,474}$
 $= \frac{34,163,591}{48,856,474}$
 $= 0.7:1$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.7:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables Collection Period = $\frac{\text{Average Trade Receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average trade receivables = $\frac{26,018,700 + 23,890,304}{2}$
 $= 24,954,502$

Therefore, Receivables collection period = $\frac{24,954,502}{131,498,373} \times 365 \text{days}$
 $= 67.5 \text{ days}$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a

profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 67.5 approximately 68 days. That's to say it takes the company 68 days to collect its receivables while that of the PPP is 126 days approximately, which gives the company time to utilize its cash.

- Payables Collection Period = $\frac{\text{average trade payables}}{\text{credit purchases}} \times 365 \text{ days}$

Where average trade payables = $\frac{31,921,108 + 31,175,725}{2}$
 $= 31,548,417$

Therefore, payables collection period = $\frac{31,548,417}{91,369,145} \times 365 \text{ days}$
 $= 126 \text{ days}$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 68 and PPP is 126 approximately this simply means that the company has about 58 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and can be improved also.

- Inventory Turnover Period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{ days}$

Where average inventory = $\frac{25,180,431 + 19,032,362}{2}$
 $= 22,106,397$

Therefore, Inventory turnover period = $\frac{22,106,397}{91,369,145} \times 365 \text{ days}$
 $= 88.3 \text{ days}$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 88.3 approximately 88 days before inventory was sold which is not good as capital would be tied down and some goods may be damaged.

- Receivables Turnover = $\frac{\text{credit sales}}{\text{average receivables}}$

$$= \frac{131,498,373}{24,954,502}$$

$$= 5.3 \text{ times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 5.3 times approximately 5 times in this reporting period. That's to say, the company collected its receivables 5 times this year.

- Payables Turnover = $\frac{\text{credit purchases}}{\text{average payables}}$

$$= \frac{91,369,145}{31,548,417}$$

$$= 2.9 \text{ times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 2.9 times approximately 3 during this accounting period. that's to say, the company paid its payables 3 times during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$

$$= \frac{91,369,145}{22,106,397}$$

$$= 4.1 \text{ times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 4.1 approximately 4 times.

Efficiency

- Return on Capital Employed $= \frac{PAT - \text{Preference dividend}}{\text{ordinary shareholders fund}}$
 $= \frac{5,483,732 - 0}{89,060,4620}$
 $= 0.06; 6\%$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE isn't high.

- Gross Profit Percentage $= \frac{\text{gross profit}}{\text{sales}} \times 100\%$
 $= \frac{40,129,228}{131,498,373} \times 100\%$
 $= 30.5\%$

Interpretation; The gross profit margin here is 30.5% which can be improved on.

- Net Profit Percentage $= \frac{\text{net profit}}{\text{sales}} \times 100\%$
 $= \frac{5,483,732}{131,498,373} \times 100\%$
 $= 4.2\%$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 4.2% which is too low and its dangerous for the business as the money spent on expenses is too much and should be reduced.

- Expenses Percentage $= \frac{\text{Individual expenses}}{\text{total expenses}} \times 100\%$
 For Market and Distribution Expense $= \frac{21,751,127}{31,944,669} \times 100\%$
 $= 68.1\%$
 For Admin Expense $= \frac{9,857,676}{31,944,669} \times 100\%$
 $= 30.9\%$

$$\begin{aligned}\text{For Net Impairment Losses} &= \frac{335,866}{31,944,669} \times 100\% \\ &= 1\%\end{aligned}$$

Interpretation; here, it is seen that Market and Distribution Expense has a higher weight than Admin and net impairment losses in relation total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\begin{aligned}\text{For Market and Distribution Expense} &= \frac{21,751,127}{131,498,373} \times 100\% \\ &= 16.5\%\end{aligned}$$

$$\begin{aligned}\text{For Admin Expense} &= \frac{9,857,676}{131,498,373} \times 100\% \\ &= 7.5\%\end{aligned}$$

$$\begin{aligned}\text{For impairment losses} &= \frac{335,866}{131,498,373} \times 100\% \\ &= 0.3\%\end{aligned}$$

Interpretation; Here, market and distribution expenses is seen to have caused a greater deterioration in profit than that of the admin and impairment losses.

Investors/ shareholders ratio

- Earnings Per share = $\frac{\text{PAT} - \text{Pref Dividend}}{\text{NO of ordinary shares}}$

$$= \frac{5,483,732,000 - 0}{2,190,383,819}$$

$$= \text{₦}2.50; 250\text{kobo}$$

Interpretation; this shows the amount of net profit and preference dividend attributable to each ordinary share in issue during this period. Here the amount is 250kobo.

- Price Earnings Ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{30.05}{2.50}$$

$$= 12.02\text{times}$$

Interpretation; this shows that it would take 12.02times assuming current earnings are maintained and ignoring taxation to recoup shareholder's investments in either dividend or capital growth.

- Earnings yield $= \frac{EPS}{MPS}$
 $= \frac{2.50}{30.05} \times 100\%$
 $= 8.3\%$

Interpretation; this means that there's an 8.3% potential returns on shareholder's investment and this can be improved so as to make shareholders invest more.

- Net Asset per share $= \frac{Net\ Asset - Pref\ share\ capital}{no\ of\ ordinary\ share}$
 $= \frac{89,060,462,000 - 0}{2,190,383,819}$
 $= \text{N}40.66; 4066\text{kobo}$

Interpretation; this shows that the amount of 4066kobo net assets is attributable to each ordinary share in issue.

- Dividend per share $= \frac{gross\ dividend}{no\ of\ ordinary\ shares}$
 $= \frac{4,030,304,563}{2,190,383,819}$
 $= \text{N}1.84; 184\text{kobo}$

Interpretation; this shows that there's a 184kobo gross dividend declared on every issued ordinary share ranking for dividend in this reporting year.

- Dividend pay-out ratio $= \frac{DPS}{EPS} \times 100\%$
 $= \frac{1.84}{2.50} \times 100\%$
 $= 73.6\%$

Interpretation; this shows that a 73.6% of the company's distributable earnings is being paid to ordinary share holders in the form of dividend and the higher the ratio the more attractive is the shares to them.

- Dividend yield $= \frac{DPS}{MPS} \times 100\%$
 $= \frac{1.84}{30.05} \times 100\%$
 $= 6.1\%$

Interpretation; this indicates that currently there's a 6.1% actual return on the shareholders' investments.

- Dividend cover $= \frac{PAT - Pref\ dividend}{gross\ dividend} \times 100\%$
 $= \frac{5,483,732,000 - 0}{4,030,304,563}$
 $= 1.36 \text{ times}$

Interpretation; this indicates the number of times of which ordinary dividend is being covered by distributable earnings which is 1.36 times.

Long Term Solvency and Stability Ratios

- Gearing Ratios $= \frac{debt}{equity}$
 $= \frac{66,975,604}{89,060,462}$
 $= 0.75$

Interpretation; this company is lowly geared

- Fixed Interest Capital $= \frac{PBIT}{Fixed\ interest}$
 $= \frac{8,966,036}{66,975,604}$
 $= 0.1 \text{ times}$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa. Here it is quite low and can scare the lenders.

- Total Debt to Shareholder fund $= \frac{NCL + CL}{Shareholder's\ funds}$
 $= \frac{22,875,691 + 48,856,474}{89,060,462}$
 $= 0.81; 81\%$

Interpretation; this shows the solvency of the business and indicates the extent of cover for the external liabilities. Here, the company would need 81% of its equity to settle its total debt which is quite high and can be worked on.

Ratio Analysis of 2018 PRESCO ltd Annual Report

Short Term Solvency

- Current Ratio = $\frac{\text{current assets}}{\text{current liabilities}}$
$$= \frac{15,506,385}{21,208,741}$$
$$= 0.7:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 0.7:1 which is not safe as the company doesn't have enough currents assets to pay up its current liabilities and this could cause a problem.

- Quick Asset = $\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$
$$= \frac{15,506,385 - 4,631,715}{21,208,741}$$
$$= 0.5:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.5:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables Collection Period = $\frac{\text{average trade receivables}}{\text{credit sales}} \times 365 \text{days}$

$$\text{Where trade receivables} = \frac{5,062,572 + 3,607,661}{2}$$
$$= 4,335,117$$

$$\text{Therefore R.C.P} = \frac{4,335,117}{21,344,730} \times 365 \text{days}$$

$$=74.1\text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 74.1 approximately 74 days. That's to say it takes the company 74days to collect its receivables while that of the PPP is 594 days approximately, which gives the company time to utilize its cash.

- Payables Payment Period = $\frac{\text{Average Trade Payables}}{\text{credit purchases}} \times 365\text{days}$

Where average trade payables = $\frac{8,034,114+7,428,137}{2}$

$$=7,731,126$$

Therefore, P.C.P = $\frac{7,731,126}{4,753,275} \times 365\text{days}$

$$=594\text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 74 and PPP is 594 approximately this simply means that the company has about 520 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is an ideals ratio that should be monitored and controlled.

- Inventory Turnover Period = $\frac{\text{Average inventory}}{\text{cost of sales}} \times 365\text{days}$

Where average inventory = $\frac{4,631,715+4,704,706}{2}$

$$=4,668,211$$

Therefore, Inventory Turnover Period = $\frac{4,668,211}{4,753,275} \times 365\text{days}$

$$=358.5\text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 358.5 approximately 356 days before inventory was sold which is not good at all as capital would be tied down and some goods may be damaged or even spoiled before it's eventually sold.

- Receivables Turnover = $\frac{\text{credit sales}}{\text{average receivables}}$

$$\frac{21,344,730}{4,335,117}$$

$$= 4.9 \text{ times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each NI of receivables, hence this shows that receivables were turned over 4.9 times approximately 5 times in this reporting period. That's to say, the company collected its receivables 5 times this year.

- Payables Turnover = $\frac{\text{credit purchases}}{\text{average payables}}$

$$\frac{4,753,275}{7,731,126}$$

$$= 0.6 \text{ times}$$

Interpretation; This means that trade payables were turned over 0.6 times approximately once during this period.

- Inventory Turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$

$$\frac{4,753,275}{4,668,211}$$

$$= 1.0 \text{ times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over once.

Efficiency/Profitability Ratio

$$\begin{aligned}
 1. \text{ Return on Capital Employed} &= \frac{PAT}{equity} \\
 &= \frac{4,284,188}{24,174,342} \\
 &= 0.2; 20\%
 \end{aligned}$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE isn't so high.

$$\begin{aligned}
 2. \text{ Gross profit percentage} &= \frac{\text{gross profit}}{\text{sales}} \times 100\% \\
 &= \frac{16,591,455}{21,344,730} \times 100\% \\
 &= 77.7\%
 \end{aligned}$$

Interpretation; This is the average gross profit as a percentage of goods sold in this period which is 77% which shows a clear evidence of management efficiency with respect to efficient utilization of its assets to generate economic benefits and enhanced returns

$$\begin{aligned}
 3. \text{ Net Profit Percentage} &= \frac{\text{net profit}}{\text{sales}} \times 100\% \\
 &= \frac{4,284,188}{21,344,730} \times 100\% \\
 &= 20.1\%
 \end{aligned}$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 20.1% which is not safe for the company and so should be worked on by monitoring its expenses.

$$4. \text{ Expense percentage} = \frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$$

$$\begin{aligned}
 \text{For Selling, general and admin expenses} &= \frac{6,384,429}{6,751,352} \times 100\% \\
 &= 94.6\%
 \end{aligned}$$

$$\begin{aligned}
 \text{For Distribution expenses} &= \frac{366,923}{6,751,352} \times 100\% \\
 &= 5.4\%
 \end{aligned}$$

Interpretation; this shows that selling, general and admin expenses has a relative higher weight than distribution expenses in relation to their total expenses.

$$5. \text{ Expenses to sales} = \frac{\text{individual expenses}}{\text{sales}} \times 100\%$$

$$\text{For selling, general and admin expenses} = \frac{6,384,429}{21,344,730} \times 100\% \\ = 29.9\%$$

$$\text{For Distribution expenses} = \frac{366,923}{21,344,730} \times 100\% \\ = 1.7\%$$

Interpretation; Here, selling, general and administrative expenses is seen to have caused a greater deterioration in profit than that of distribution expenses.

Investors/ shareholders Ratio

- Earnings Per Share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{4,284,188,000 - 0}{1,000,000,000}$$

$$= \text{N}4.3 \text{ which is } 430\text{kobo}$$

Interpretation; this indicates that a 430kobo of net profit is attributable to each ordinary share in issue and ranking for dividend in this period.

- Price-Earnings Ratio = $\frac{\text{Market price per share}}{\text{Earnings per share}}$

$$= \frac{64}{4.3} \text{ or } = \frac{6400\text{kobo}}{430\text{kobo}}$$

$$= 14.9\text{times}$$

Interpretation; this indicates that it would take about 14.9 times assuming that current earnings are maintained and ignoring taxation of dividends to recoup shareholders investment in either dividends received or capital growth from retained earnings.

- Earnings yield = $\frac{\text{EPS}}{\text{MPS}} \times 100\%$

$$= \frac{4.3}{64} \times 100\%$$

$$= 7\%$$

Interpretation; this ratio shows that there's 7% potential returns attached to all shareholder's investment. This can be improved to be higher in order to motivate shareholders to invest more.

- Net Asset Per Share = $\frac{\text{Net asset} - \text{preference share capital}}{\text{no of ordinary share}}$

$$= \frac{24,174,342,000 - 0}{1,000,000,000}$$

$$= \text{₦}24.17; 2417\text{kobo}$$

Interpretation; this indicates that there's 2417kobo of net assets attributable to each ordinary share in issue and the higher it is show an indication that the company is growing.

- Dividend Per Share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{2,000,000,000}{1,000,000,000}$$

$$= \text{₦}2; 200\text{kobo}$$

Interpretation; this ratio shows that there' a 200kobo of gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend pay-out ratio = $\frac{DPS}{EPS} \times 100\%$

$$= \frac{200}{430} \times 100\%$$

$$= 47\%$$

Interpretation; this indicates that there's a 47% of the company's distributable earnings paid to ordinary shareholders usually in the form of dividend.

- Dividend yield = $\frac{DPS}{MPS} \times 100\%$

$$= \frac{200}{6400} \times 100\%$$

$$= 3.1\%$$

Interpretation; this is the measure of cost of equity. It indicates that there's currently a 3.1% actual return on the shareholders investment.

- Dividend cover $= \frac{PAT - Pref\ dividend}{gross\ dividend}$
 $= \frac{4,284,188 - 0}{2,000,000}$
 $= 2.1 \text{ times}$

Interpretation; this simply shows that ordinary dividend was covered by distributable earnings about 2.1 times in the year.

Long Term Solvency

- Gearing ratio $= \frac{debt}{equity}$
 $= \frac{15,273,152}{24,174,342}$
 $= 0.63; 63\%$

Interpretation; this company is lowly geared as its percentage is 0.6 which is less than 1

- Fixed interest capital $= \frac{PBIT}{fixed\ interest}$
 $= \frac{10,229,948}{15,273,152}$
 $= 0.67; 67\%$

Interpretation; this ratio measures the number of times fixed interest is covered by profit and the higher it is, the more confident lenders feel. Here the ratio is 67% which is not bad at all for the company.

- Total debts to shareholders fund $= \frac{NCL + CL}{Equity}$
 $= \frac{13,295,666 + 21,208,741}{24,174,342}$
 $= 1.43; 143\%$

Interpretation; Here the company will need 143% of its equity to settle its total debts which is very high and not encouraging at all and can cause a solvency problem in the future if not worked on.

CONSUMER SERVICES

Ratio Analysis on Ikeja Hotels Annual Reports for 2018

Short term solvency

- Current ratio = $\frac{\text{current assets}}{\text{current liabilities}}$
$$\frac{4,051,588}{6,754,209}$$
$$=0.6:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 0.6:1 which means the company doesn't have enough current assets to be able to pay its future bills and this isn't safe for the business

- Quick asset ratio = $\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$
$$\frac{4,051,588 - 55,333}{6,754,209}$$
$$=0.6:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.6:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}}$

$$\text{Where average receivables} = \frac{770,733 + 671,749}{2}$$
$$=721,241$$

$$\text{Therefore R.C.P} = \frac{721,241}{7,290,231} \times 365 \text{days}$$

$$= 36.1 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 36.1 approximately 36 days. That's to say it takes the company 36 days to collect its receivables while that of the PPP is 92 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$

$$\text{Where average payables} = \frac{1,252,102 + 1,113,701}{2}$$

$$= 1,182,902$$

$$\text{Therefore, P.C. P} = \frac{1,182,902}{4,670,742} \times 365 \text{days}$$

$$= 92.4 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 36 and PPP is 92 approximately this simply means that the company has about 56 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and improved to be better.

- Inventory Turnover Period = $\frac{\text{average inventory}}{\text{cost of sales}}$

$$\text{Where average inventory} = \frac{55,333 + 266,695}{2}$$

$$= 161,014$$

$$\text{Therefore, Inventory Turnover Period} = \frac{161,014}{4,670,742}$$

$$=12.6\text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 12.6 approximately 13 days before inventory was sold which is not so bad but then if it's too short it can be a sign of overtrading.

- Receivables Turnover $= \frac{\text{credit sales}}{\text{average receivables}}$
 $= \frac{7,290,231}{721,241}$
 $=10.10\text{times}$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 10.1 times approximately 11 times in this reporting period. That's to say, the company collected its receivables 11 times this year.

- Payables Turnover $= \frac{\text{Credit purchases}}{\text{average payables}}$
 $= \frac{4,670,742}{1,182,902}$
 $=3.9\text{times}$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 3.9 times approximately 4 during this accounting period. That's to say, the company paid its payables 4 times during this accounting period.

- Inventory Turnover $= \frac{\text{cost of sales}}{\text{average inventory}}$
 $= \frac{4,670,742}{161,014}$
 $=29.00\text{times}$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 29 times which is quite high and may be a sign of overtrading.

Efficiency/Profitability Ratios

$$\begin{aligned} 1. \text{ Return on capital employed} &= \frac{\text{PAT} - \text{Pref dividend}}{\text{ordinary shareholder's funds}} \\ &= \frac{667,034 - 0}{8,102,939} \\ &= 0.1; 10\% \end{aligned}$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE isn't high.

$$\begin{aligned} 2. \text{ Gross profit percentage} &= \frac{\text{gross profit}}{\text{sales}} \times 100\% \\ &= \frac{2,619,489}{7,290,231} \times 100\% \\ &= 35.9\% \end{aligned}$$

Interpretation; The gross profit margin here is 35.9%, which can be improved upon.

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$
= $\frac{677,034}{7,290,231} \times 100\%$
= 9.3%

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses. Here the profitability is 5.7%, which is too low and be worked on by cutting off unnecessary expenses.

$$3. \text{ Expenses percentage} = \frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$$

$$\begin{aligned} \text{For admin expense} &= \frac{983,406}{1,219,990} \times 100\% \\ &= 80.6\% \end{aligned}$$

$$\begin{aligned} \text{For Sales and marketing expense} &= \frac{236,584}{1,219,990} \times 100\% \\ &= 19.4\% \end{aligned}$$

Interpretation; this shows that administrative expenses has a relatively high weight as compared to sales and marketing expense in relation to their total expenses.

$$4. \text{ Expense to sales} = \frac{\text{individual expenses}}{\text{sales}} \times 100\%$$

$$\text{For admin expense} = \frac{983,406}{7,290,231} \times 100\%$$

$$=13.5\%$$

$$\text{For sales and marketing expense} = \frac{236,584}{7,290,231} \times 100\%$$

$$=3.2\%$$

Interpretation; Here, Administrative expenses is seen to have caused a greater deterioration in profit than that of sales and marketing expense.

Investors/Shareholders Ratios

- Earnings per share = $\frac{\text{PAT}-\text{Pref dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{677,034,000-0}{2,078,796,399}$$

$$= \text{N}0.33;33\text{kobo}$$

Interpretation; this ratio indicates that a 33kobo net profit is attributable to each ordinary share in issue and ranking for dividend during the period.

- Price Earnings ratios = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{1.53}{0.33} \text{ or } = \frac{153\text{kobo}}{33\text{kobo}}$$

$$=4.7\text{times}$$

Interpretation; this indicates that it would take the company about 4.7times/years assuming current earnings are maintained and taxation of dividend ignored to recoup shareholders investment in either the form of dividend received or capital growth arising from retained earnings.

- Earnings yield = $\frac{\text{EPS}}{\text{MPS}} \times 100\%$

$$= \frac{0.33}{1.53} \times 100\%$$

$$=21.6\%$$

Interpretation; this indicates that there might be a 21.6% potential returns on shareholder's investments which can encourage them to invest more.

- Net Asset per share = $\frac{\text{Net Asset} - \text{preference share capital}}{\text{no of ordinary share}}$

$$= \frac{8,102,939,000 - 0}{2,078,796,399}$$

$$= \text{N}3,390\text{kobo}$$

Interpretation; this shows that there's a 390kobo of net assets attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ord. shares}}$

$$= \frac{0}{2,078,796,399}$$

$$= 0$$
- Dividend pay-out ratio = $\frac{\text{DPS}}{\text{EPS}} \times 100\%$

$$= \frac{0}{0.325}$$

$$= 0$$
- Dividend yield = $\frac{\text{DPS}}{\text{MPS}} \times 100\%$

$$= \frac{0}{1.53}$$

$$= 0$$
- Dividend cover = $\frac{\text{PAT} - \text{pref dividend}}{\text{gross dividend}}$

$$= \frac{677,034 - 0}{16,691}$$

$$= 0$$

Long term solvency

- Gearing ratio = $\frac{\text{debt}}{\text{equity}}$

$$= \frac{8,102,939}{8,102,939}$$

$$= 1$$
- Fixed interest capital = $\frac{\text{PBIT}}{\text{fixed interest}}$

$$= \frac{1,544,299}{1,544,299}$$

$$= 1$$

- Total debt to shareholders $= \frac{NCL+CL}{Equity}$

$$= \frac{9,751,962+6,754,209}{8,102,939}$$

$$= 2.03$$

Interpretation; this means that the company would use 2.03 of its equity to settle its total debt which is too high if changed to percentage and so should be worked on.

Ratio analysis on Capital Hotels 2018 Annual Report

Short term solvency

- Current Ratio $= \frac{\text{current asset}}{\text{current liabilities}}$

$$= \frac{5,698,295}{2,630,478}$$

$$= 2.2:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 2.2:1 which is the universal average meaning that the company will still have left over current assets after settling all its future bills.

- Acid test ratio $= \frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$

$$= \frac{5,698,295 - 141,990}{2,630,478}$$

$$= 2.1:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 2.1:1 and this is even more than the universal norm and as such is good for the company's reputation as the company can cover all its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

$$\text{Where average receivables} = \frac{1,620,077 + 1,615,857}{2}$$

$$= 1,617,967$$

$$\text{Therefore R. C. P} = \frac{1,617,967}{5,977,436} \times 365 \text{days}$$

$$= 98.8 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 98.8 approximately 99 days. That's to say it takes the company 27 days to collect its receivables while that of the PPP is 162 days approximately, which gives the company time to utilize its cash.

- Payables payment period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$

$$\text{Where average payables} = \frac{2,378,096 + 1,935,123}{2}$$

$$= 2,156,610$$

$$\text{Therefore P.C.P} = \frac{2,156,610}{4,869,732} \times 365 \text{days}$$

$$= 161.6 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 99 and PPP is 162 approximately this simply means that the company has about 63 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and possible improved also to increase the number of days.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

Where average inventory = $\frac{141,990 + 251,229}{2}$
 = 196,610

Therefore, I.T.P = $\frac{196,610}{4,869,732} \times 365 \text{days}$
 = 14.7days

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 14.7 approximately 15 days before inventory was sold.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$
 $\frac{5,977,436}{1,617,967}$
 = 3.7times

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 3.7 times approximately 4 times in this reporting period. That's to say, the company collected its receivables 4 times this year.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$
 $\frac{4,869,732}{2,156,610}$
 = 2.3times

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 2.3times approximately 2 during this accounting period. that's to say, the company paid its payables 2 times during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$
 $\frac{4,869,732}{196,610}$
 = 24.8times

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 24.8 approximately 25 times.

Efficiency Ratio

$$\begin{aligned} 1. \text{ Return on capital employed} &= \frac{\text{PAT} - \text{preferred dividend}}{\text{ordinary shareholders fund}} \\ &= \frac{379,946 - 0}{6,416,983} \\ &= 0.1; 10\% \end{aligned}$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE isn't high.

$$\begin{aligned} 2. \text{ Gross profit percentage} &= \frac{\text{gross profit}}{\text{sales}} \times 100\% \\ &= \frac{1,107,704}{5,977,436} \times 100\% \\ &= 18.5\% \end{aligned}$$

Interpretation; The gross profit margin is 18.5% which is not so high so more effort should be put in controlling the cost of sales.

$$\begin{aligned} \bullet \text{ Net profit percentage} &= \frac{\text{net profit}}{\text{sales}} \times 100\% \\ &= \frac{379,946}{5,977,436} \times 100\% \\ &= 6.4\% \end{aligned}$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 6.4% which is too low for the business and can be a problem as the expenses is too much and should be drastically reduced.

$$3. \text{ Expenses percentage} = \frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$$

There's only one expense and so the answer would be 1%

$$\begin{aligned} \text{Admin Expenses} &= \frac{721,477}{721,477} \times 100\% \\ &= 1\% \end{aligned}$$

Interpretation; the company has only one expense recorded in this reporting period and as such there's no other expense for it to be compared with.

$$4. \text{ Expenses to sales} = \frac{\text{individual expenses}}{\text{sales}} \times 100\%$$

$$\begin{aligned} \text{Admin Expenses} &= \frac{721,477}{5,977,436} \times 100\% \\ &= 12.1\% \end{aligned}$$

Interpretation; there's only one expense and so it can't be compared

Investors/ shareholders Ratio

$$\begin{aligned} 1. \text{ Earnings per share} &= \frac{\text{PAT-Preferred dividend}}{\text{no of ordinary shares issued}} \\ &= \frac{379,946,000 - 0}{1,548,780,000} \\ &= \text{N}0.25; 25\text{kobo} \end{aligned}$$

Interpretation; this ratio shows that there's a 25kobo net profit attributable to each ordinary share in issue and ranking for dividend during the period.

$$\begin{aligned} 2. \text{ Price earnings ratio} &= \frac{\text{market price per share}}{\text{earnings per share}} \\ &= \frac{3.10}{0.25} \\ &= 12.4\text{times} \end{aligned}$$

Interpretation; this indicates that it would take the company about 12.4times/years assuming current earnings are maintained and taxation of dividend ignored to recoup shareholders' investment either in the form of dividend or capital growth

$$\begin{aligned} 3. \text{ Earnings yield} &= \frac{\text{Earnings per share}}{\text{market price per share}} \times 100\% \\ &= \frac{0.25}{3.10} \times 100\% \\ &= 8.1\% \end{aligned}$$

Interpretation; this shows that there's an 8.1% potential returns on shareholder's investment

$$\begin{aligned} 4. \text{ Net asset per share} &= \frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary shares issued}} \\ &= \frac{6,416,983,000}{1,548,780,000} \\ &= \text{N}4.14; 414\text{kobo} \end{aligned}$$

Interpretation; this indicates a 414kobo amount of net assets attributable to each ordinary share in issue.

$$\begin{aligned} 5. \text{ Dividend per share} &= \frac{\text{gross dividend}}{\text{no of ordinary shares issued}} \\ &= \frac{77,439,000}{1,548,780,000} \\ &= 0.05; 5\text{kobo} \end{aligned}$$

Interpretation; this shows a 5kobo gross dividend declared on every issued ordinary share ranking for dividend in the year.

$$\begin{aligned} 6. \text{ Dividend pay-out} &= \frac{\text{dividend per share}}{\text{earnings per share}} \times 100\% \\ &= \frac{0.05}{0.25} \times 100\% \\ &= 20\% \end{aligned}$$

Interpretation; this shows that a 20% of the company's distributable earnings is being paid to ordinary shareholders in the form of dividend.

$$\begin{aligned} 7. \text{ Dividend yield} &= \frac{\text{dividend per share}}{\text{market price per share}} \times 100\% \\ &= \frac{0.05}{3.10} \times 100\% \\ &= 1.6\% \end{aligned}$$

Interpretation; this shows that there's currently a 1.6% actual return on the shareholder's investment.

$$\begin{aligned} 8. \text{ Dividend cover} &= \frac{\text{PAT} - \text{Pref dividend}}{\text{gross dividend}} \\ &= \frac{379,946 - 0}{77,439} \\ &= 4.9 \end{aligned}$$

Interpretation; this shows that ordinary dividend is covered by distributable earnings for about 4.9times.

Long Term Solvency

$$\begin{aligned} 1. \text{ Gearing ratio} &= \frac{\text{debts}}{\text{debts} + \text{equity}} \\ &= \frac{(1,364,678)}{(1,364,678) + 6,416,983} \\ &= -0\% \end{aligned}$$

Interpretation; here the company is lowly geared as the answer is lesser than 1

$$\begin{aligned} 2. \text{ Fixed interest capital} &= \frac{\text{PBIT}}{\text{fixed interest}} \\ &= \frac{437,010}{[1,364,678]} \\ &= -0.3 \end{aligned}$$

Interpretation; this is a negative sign which is not good for the business.

$$\begin{aligned} 3. \text{ Total debt to shareholders fund} &= \frac{\text{Total liabilities}}{\text{equity}} \\ &= \frac{3,659,836}{6,416,983} \\ &= 0.6; 60\% \end{aligned}$$

Interpretation; this means the company would use 60% of its equity to settle its total debts for the year.

TELECOMMUNICATIONS

Ratio Analysis OF E-TRANZACT 2018 Annual Report

Short term solvency

- $$\begin{aligned} \text{Current Ratio} &= \frac{\text{current asset}}{\text{current liabilities}} \\ &= \frac{4,105,003}{5,630,715} \\ &= 0.7:1 \end{aligned}$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current

ratio is a 2:1, but here the ratio is 0.7:1 which is not safe at all as the company may not be able to pay its future bills on time as they don't have enough assets to do so.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$

$$= \frac{4,105,003 - 401,048}{5,630,715}$$

$$= 0.7:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.7:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average receivables = $\frac{1,075,193 + 1,162,975}{2}$

$$= 1,119,084$$

Therefore R. C. P = $\frac{1,119,084}{18,621,653} \times 365 \text{days}$

$$= 21.9 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 21.9 approximately 22 days. That's to say it takes the company 27 days to collect its receivables while that of the PPP is 86 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$

Where average payables = $\frac{5,564,590 + 2,457,089}{2}$

$$=4,010,840$$

$$\text{Therefore P.C.P} = \frac{4,010,840}{16,997,019} \times 365 \text{days}$$

$$=86.1 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 22 and PPP is 86 approximately this simply means that the company has about 64 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and possibly improved.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

$$\text{Where average inventory} = \frac{401,048 + 232,436}{2}$$

$$=316,742$$

$$\text{Therefore, I.T.P} = \frac{316,742}{16,997,019} \times 365 \text{days}$$

$$=6.8 \text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 6.8 approximately 7 days before inventory was sold which is not bad for the company.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$

$$= \frac{18,621,653}{1,119,084}$$

$$=16.6 \text{times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 16.6 times approximately 17 times in this reporting period. That's to say, the company collected its receivables 17 times this year which is quite high and shows sign of over trading.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$

$$= \frac{16,997,019}{4,010,840}$$

$$= 4.2 \text{ times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 4.2 times approximately 4 during this accounting period. that's to say, the company paid its payables 4 times during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$

$$= \frac{16,997,019}{316,742}$$

$$= 53.7 \text{ days}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 53.7 approximately 54 times and this is quite high and may be an issue.

Efficiency Ratio

- Return on capital employed = $\frac{\text{PAT} - \text{preferred dividend}}{\text{ordinary shareholders fund}}$

The company made loss this year, so PAT will be loss for the year

$$= \frac{[3,136,413] - 0}{2,100,000}$$

$$= -1.5$$

Interpretation; This is a loss on capital employed.

- Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$

$$= \frac{1,624,634}{18,621,653} \times 100\%$$

$$=31.8\%$$

Interpretation; The gross profit margin 31.8%, which can be improved upon.

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$

Since the company made a loss during this operating year, there is no net profit percentage but rather a net loss.

$$\begin{aligned} &= \frac{[3,136,413]}{18,621,653} \times 100\% \\ &= -16.8\% \end{aligned}$$

Interpretation; here the company had a net loss at the end of the year which is worst than having a low net profit percentage.

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$

$$\begin{aligned} \text{Selling and Marketing Costs} &= \frac{78,232}{5,212,081} \times 100\% \\ &= 1.5\% \end{aligned}$$

$$\begin{aligned} \text{Administrative Expenses} &= \frac{2,360,725}{5,212,081} \times 100\% \\ &= 45.3\% \end{aligned}$$

$$\begin{aligned} \text{Other expenses} &= \frac{2,773,124}{5,212,081} \times 100\% \\ &= 53.2\% \end{aligned}$$

Interpretation; this shows that administrative expenses has a relative high weight as compared to the other expenses calculated in relation to total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\begin{aligned} \text{Selling and Marketing Expenses} &= \frac{78,232}{18,621,653} \times 100\% \\ &= 0.4\% \end{aligned}$$

$$\text{Administrative Expenses} = \frac{2,360,725}{18,621,653} \times 100\%$$

$$=12.7\%$$

$$\text{Other expenses} = \frac{2,773,124}{18,621,653} \times 100\%$$

$$=14.9\%$$

Interpretation; Here, other expenses is seen to have caused a greater deterioration in profit than that of selling and marketing and administrative expenses.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$\text{It's a loss for the year} = \frac{[3,136,413] - 0}{4,200,000}$$

$$= \text{N}-0.75; -75\text{kobo}$$

Interpretation; this shows a loss meaning that there's a net loss on every ordinary share in issue instead of a profit.

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{3.95}{[0.75]}$$

$$= -5.3\text{times}$$

Interpretation; this indicates that it takes the company about 5.3 times/years assuming current earnings are maintained and taxation of dividend ignored, to recoup shareholders investment.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$

$$= \frac{[0.75]}{3.95} \times 100\%$$

$$= -19\%$$

Interpretation; this is a negative sign which can discourage the shareholders from investing.

- Net asset per share = $\frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary shares issued}}$

$$= \frac{159,667,000}{4,200,000,000}$$

$$= \text{N}0.04; 4\text{kobo}$$

Interpretation; this

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$
 $= \frac{0}{4,200,000,000}$
 $= 0$
- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$
 $= \frac{0}{-0.75} \times 100\%$
 $= 0$
- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$
 $= \frac{0}{3.95} \times 100\%$
 $= 0$
- Dividend cover = $\frac{\text{PAT} - \text{Pref dividend}}{\text{gross dividend}}$
 $= \frac{[3,136,413] - 0}{0}$
 $= 0$

Long Term Solvency

- Gearing ratio = $\frac{\text{debts}}{\text{equity}}$
 $= -$
 $=$
- Fixed interest capital = $\frac{\text{PBIT}}{\text{fixed interest}}$

There's also no profit before interest and tax, but operating loss

$$= \frac{[3,587,447]}{}$$
$$=$$

- Total debt to shareholders fund = $\frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$
 $= \frac{5,807,732}{2,100,000}$
 $= 2.76; 276\%$

Interpretation; this shows that the company will need 276% of its equity to settle its total debt for the year.

Ratio Analysis of Chams PLC 2019 Annual Report

Short term solvency

- Current Ratio = $\frac{\text{current asset}}{\text{current liabilities}}$
$$= \frac{704,433}{1,430,541}$$
$$= 0.5:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 0.5:1 which is not safe for the business as the business may not be able to settle its future bills on time as a result of the low current ratio.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$
$$= \frac{704,433 - 23,768}{1,430,541}$$
$$= 0.5:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.5:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average receivables = $\frac{555,947 + 510,446}{2}$
$$= 533,197$$

Therefore R. C. P = $\frac{533,197}{469,066} \times 365 \text{days}$
$$= 414 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 414 days. That's to say it takes the company 414 days to collect its receivables while that of the PPP is 1676 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{ days}$

$$\text{Where average payables} = \frac{954698 + 1,246,204}{2}$$

$$= 1,100,451$$

$$\text{Therefore P.C.P} = \frac{1,100,451}{239,695} \times 365 \text{ days}$$

$$= 1675.7 \text{ days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 414 and PPP is 1676 approximately this simply means that the company has about 1262 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is an ideal ratio that should be monitored and continued as it gives a lot of time for the company to utilize the money collect from its debtors well enough before paying its creditors.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{ days}$

$$\text{Where average inventory} = \frac{23,768 + 67,648}{2}$$

$$= 45,708$$

$$\text{Therefore, I.T.P} = \frac{45,708}{239,695} \times 365 \text{ days}$$

$$= 69.6 \text{ days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it

is for the company. Here it takes the company 69.6 approximately 70 days before inventory was sold which is not so good as capital would be tied down.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$
$$= \frac{469,066}{533,197}$$
$$= 0.9 \text{ times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each NI of receivables, hence this shows that receivables were turned over 0.9 times approximately once in this reporting period. That's to say, the company collected its receivables once this year which is a sign of them under trading and isn't really too good.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$
$$= \frac{239,695}{1,100,451}$$
$$= 0.2 \text{ times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 0.2 times approximately 0 during this accounting period. That's to say, the company didn't pay its payables this year.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$
$$= \frac{239,695}{45,708}$$
$$= 5.2 \text{ times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 5.2 approximately 5 times.

Efficiency Ratio

- Return on capital employed = $\frac{PAT - \text{preferred dividend}}{\text{ordinary shareholders fund}}$
 $= \frac{103,949 - 0}{3,696,562}$
 $= 0.03$

Interpretation; *This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is zero.*

- Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$
 $= \frac{229,371}{469,066} \times 100\%$
 $= 48.9\%$

Interpretation; *The gross profit margin in 48.9%, which shows a clear evidence of management efficiency with respect to efficient utilization of its assets to generate economic benefits and enhanced returns.*

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$
 $= \frac{103,949}{469,066} \times 100\%$
 $= 22.2\%$

Interpretation; *This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 22.2% which is still not too safe and so the company should look to see expenses that can be cut up to improve this.*

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$

There's only one expense and so expenses cannot be compared.

$$\text{Administrative Expenses} = \frac{624,917}{624,917} \times 100\%$$
$$= 1\%$$

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\text{Administrative Expenses} = \frac{624,917}{469,066} \times 100\%$$

$$= 133.2\%$$

There's only one expense.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{103,949,000 - 0}{4,696,060,000}$$

$$= \text{N}0.02; 2\text{kobo}$$

Interpretation; this shows that there's a 2kobo net profit attributable to each ordinary share in issue and ranking for dividend during the period.

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{0.33}{0.02}$$

$$= 16.5\text{times}$$

Interpretation; this shows that the company would take about 16.5 times/years assuming current earnings are maintained and ignoring taxation of dividends, to recoup shareholders investment either in the form of dividend received or capital growth.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$

$$= \frac{0.02}{0.33} \times 100\%$$

$$= 6.1\%$$

Interpretation; this shows that there's 6.1% potential returns on the shareholder's investment.

- Net asset per share = $\frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary shares issued}}$

$$= \frac{3,696,562,000 - 0}{4,696,060,000}$$

$$= \text{N} 0.79; 79\text{kobo}$$

Interpretation; this ratio shows there's a 79kobo amount of net assets attributable to each ordinary share in issue.

- Dividend per share $= \frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$
 $= \frac{140,881,000}{4,696,060,000}$
 $= \text{₦} 0.03$

Interpretation; this shows that there's a ₦0.03 gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend pay-out $= \frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$
 $= \frac{0.03}{0.02} \times 100\%$
 $= 150\%$

Interpretation; this shows that a 150% company's distributable earning is being paid to ordinary shareholders in the form of dividend.

- Dividend yield $= \frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$
 $= \frac{0.03}{0.33} \times 100\%$
 $= 9.1\%$

Interpretation; this shows that there's currently a 9.1% actual return on shareholders' investment.

- Dividend cover $= \frac{\text{PAT-Pref dividend}}{\text{gross dividend}}$
 $= \frac{103,949-0}{140,881}$
 $= 0.7$

Interpretation; this shows that ordinary dividend is covered by distributable earnings 0.7times.

Long Term Solvency

- Gearing ratio $= \frac{\text{debts}}{\text{equity}}$
 $= \frac{377,329}{3,696,562}$
 $= 0.1; 10\%$

Interpretation; this company is lowly geared.

- Fixed interest capital $= \frac{PBIT}{\text{fixed interest}}$
 $= \frac{140,110}{377,329}$
 $= 0.4 \text{ times}$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa. And this is quite low and might discourage the lenders.

- Total debt to shareholders fund $= \frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$
 $= \frac{1,430,541}{3,696,562}$
 $= 0.39; 39\%$

Interpretation; this means that the company would need 39% of its equity to settle its total debts for the year.

HEALTHCARE

Ratio Analysis of GLAXOSMITHKLINE PLC 2019 Annual Report

Short term solvency

- Current Ratio $= \frac{\text{current asset}}{\text{current liabilities}}$
 $= \frac{16,293,131}{9,704,133}$
 $= 1.7:1$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.7:1 which is not totally safe for the business but it's a

little bit manageable as it would be able to settle its debt and still have left over assets but then it's advisable for the company to put in more effort to avoid problems in the future.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$

$$= \frac{16,293,131 - 5,524,915}{9,704,133}$$

$$= 1.1:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 1.1:1 meaning that the company can cover its current liabilities without selling its inventory and so portrays a good reputation for the company.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$
 Where average receivables = $\frac{6,843,962 + 5,740,325}{2}$

$$= 6,292,144$$

 Therefore R. C. P = $\frac{6,292,144}{20,760,320} \times 365 \text{days}$

$$= 110.6 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 110.6 days. That's to say it takes the company 111 days approximately to collect its receivables while that of the PPP is 190 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$
 Where average payables = $\frac{8,898,719 + 6,434,732}{2}$

$$= 7,666,726$$

$$\text{Therefore P.C.P} = \frac{7,666,726}{14,708,020} \times 365 \text{days}$$

$$= 190.3 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 111 and PPP is 190 approximately this simply means that the company has about 79 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and possibly improved.

- Inventory turnover period $= \frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

Where average inventory $= \frac{5,524,915 + 3,938,707}{2}$

$$= 4,731,811$$

Therefore, I.T.P $= \frac{4,731,811}{14,708,020} \times 365 \text{days}$

$$= 117.4 \text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 117.4 approximately 117 days before inventory was sold which is not good as capital would be tied down.

- Receivables turnover $= \frac{\text{credit sales}}{\text{average receivables}}$

$$= \frac{20,760,320}{6,292,144}$$

$$= 3.3 \text{times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each NI of receivables, hence this shows that receivables were turned over 3.3 times approximately 3 times in this reporting period. That's to say, the company collected its receivables 3 times this year.

- Payables turnover $= \frac{\text{credit purchases}}{\text{average payables}}$

$$= \frac{14,708,020}{7,666,726}$$

$$=1.9\text{times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 1.9times approximately 2 during this accounting period. that's to say, the company paid its payables 2 times during this accounting period.

- Inventory turnover $= \frac{\text{cost of sales}}{\text{average inventory}}$

$$= \frac{14,708,020}{4,731,811}$$

$$=3.1\text{times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 3.1 approximately 3 times.

Efficiency Ratio

- Return on capital employed $= \frac{\text{PAT} - \text{preferred dividend}}{\text{ordinary shareholders fund}}$

$$= \frac{926,054 - 0}{8,980,425}$$

$$=0.1$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE zero.

- Gross profit percentage $= \frac{\text{gross profit}}{\text{sales}} \times 100\%$

$$= \frac{6,052,300}{20,760,320} \times 100\%$$

$$=29.2\%$$

Interpretation; The gross profit margin is 29.2%, which should be improved upon as its too low.

- Net profit percentage $= \frac{\text{net profit}}{\text{sales}} \times 100\%$

$$= \frac{926,054}{20,760,320} \times 100\%$$

$$= 4.5\%$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 4.7%, which is quite low and so the company should try to cut down any unnecessary expenses to improve this.

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$

For Selling and distribution cost = $\frac{3,328,165}{5,252,407} \times 100\%$

$$= 63.4\%$$

Administrative Expenses = $\frac{1,924,242}{5,252,407} \times 100\%$

$$= 36.6\%$$

Interpretation; this shows that selling and distribution expenses has a relative higher weight than that of the other expense in relation to total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

For selling and distribution cost = $\frac{3,328,165}{20,760,320} \times 100\%$

$$= 16.0\%$$

Administrative Expenses = $\frac{1,924,242}{20,760,320} \times 100\%$

$$= 9.3\%$$

Interpretation; Here, selling and distribution costs is seen to have caused a greater deterioration in profit than that of administrative expenses.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$\begin{aligned} &= \frac{926,054-0}{1,195,876} \\ &= 0.77; 77\text{kobo} \end{aligned}$$

Interpretation; this shows that there's a 77kobo net profit attributable to each ordinary share in issue and ranking for dividend during the period.

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$\begin{aligned} &= \frac{6.10}{0.77} \\ &= 7.9\text{times} \end{aligned}$$

Interpretation; this shows that the company has about 8 times approximately assuming current earnings are maintained and taxation on dividend ignored to recoup shareholders' investment in either dividend received or capital growth.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$

$$\begin{aligned} &= \frac{0.77}{6.10} \times 100\% \\ &= 12.6\% \end{aligned}$$

Interpretation; this ratio shows a 12.6% potential returns attributable to shareholders' investment.

- Net asset per share = $\frac{\text{net asset-preference share capital}}{\text{no of ordinary shares issued}}$

$$\begin{aligned} &= \frac{8,980,425-0}{1,195,876} \\ &= \text{N}7.5; 750\text{kobo} \end{aligned}$$

Interpretation; this indicates that there's a 750kobo net assets attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$

$$\begin{aligned} &= \frac{657,732}{1,195,876} \\ &= 0.55; 55\text{kobo} \end{aligned}$$

Interpretation; this shows the 0.55kobo gross dividend declared on every issue ordinary share ranking for dividend in the year.

- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$

$$\begin{aligned}
&= \frac{0.55}{0.77} \times 100\% \\
&= 71.4\%
\end{aligned}$$

Interpretation; this shows that there's a 71.4% of the company's distributable earnings being paid to the ordinary shareholders in the form of dividend.

- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$

$$\begin{aligned}
&= \frac{0.55}{6.10} \times 100\% \\
&= 9.0\%
\end{aligned}$$

Interpretation; this indicates that there's currently a 9.0% actual return on the shareholder's investment.

- Dividend cover = $\frac{\text{PAT} - \text{Pref dividend}}{\text{gross dividend}}$

$$\begin{aligned}
&= \frac{926,054}{657,732} \\
&= 1.4
\end{aligned}$$

Interpretation; this indicates that ordinary dividend is covered by distributable earnings once in this year.

Long Term Solvency

- Gearing ratio = $\frac{\text{debts}}{\text{debt} + \text{equity}}$

$$\begin{aligned}
&= \frac{5,187,955}{8,980,425} \\
&= 0.37; 37\%
\end{aligned}$$

Interpretation; this is lowly geared as it is 0.37 which is less than 1

- Fixed interest capital = $\frac{\text{PBIT}}{\text{fixed interest}}$

$$\begin{aligned}
&= \frac{1,178,281}{5,187,955} \\
&= 0.2 \text{ times}
\end{aligned}$$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa. And this is quite low.

- Total debt to shareholders fund = $\frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$

$$\frac{9,704,133}{8,980,425}$$

$$= 1.1$$

Interpretation; this means that the company will need 1.1 of its equity to settle its total debts which is quite if changed to percentage

Ratio Analysis on MAY and BAKER Health care 2018 Annual Report

Short term solvency

- Current Ratio = $\frac{\text{current asset}}{\text{current liabilities}}$

$$\frac{3,306,328}{3,107,810}$$

$$= 1.1:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.1:1 which is not too safe for the business and so it's advisable for them to put in more effort.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$

$$\frac{3,306,328 - 1,469,949}{3,107,810}$$

$$= 0.6:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.6:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average receivables = $\frac{1,482,954 + 956,471}{2}$
 = 1,219,713

Therefore R. C. P = $\frac{1,219,713}{8,249,947} \times 365 \text{days}$
 = 54 days

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 54 days. That's to say it takes the company 54 days approximately to collect its receivables while that of the PPP is 112 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$

Where average payables = $\frac{1,400,616 + 1,828,436}{2}$
 = 1,614,526

Therefore P.C.P = $\frac{1,614,526}{5,241,910} \times 365 \text{days}$
 = 112.4 days

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 54 and PPP is 112 approximately this simply means that the company has about 58 days after collecting its debt to put the cash into something that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and possibly improved to give the company more time to utilize the money collected.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

Where average inventory = $\frac{1,463,949 + 1,469,491}{2}$
 = 1,466,720

Therefore, I.T.P = $\frac{1,466,720}{5,241,910} \times 365 \text{days}$

$$=102.1\text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 134.8 approximately 135 days before inventory was sold which is not good as capital would be tied down.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$

$$= \frac{8,249,947}{1,219,713}$$

$$= 6.8\text{times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each NI of receivables, hence this shows that receivables were turned over 6.8 times approximately 7 times in this reporting period. That's to say, the company collected its receivables 7 times this year which is okay.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$

$$= \frac{5,241,910}{1,614,526}$$

$$= 3.2\text{times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 3.2 times approximately 3 during this accounting period. That's to say, the company paid its payables 3 times during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$

$$= \frac{5,241,910}{1,466,720}$$

$$= 3.6\text{times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 3.6 approximately 4 times.

Efficiency Ratio

- Return on capital employed = $\frac{PAT - \text{preferred dividend}}{\text{ordinary shareholders fund}}$
$$= \frac{617,073 - 0}{3,708,011}$$
$$= 0.2$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is zero

- Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$
$$= \frac{3,008,037}{8,249,947} \times 100\%$$
$$= 36.5\%$$

Interpretation; The gross profit margin is 36.5% which is not so high but can be improved upon by monitoring the cost of sales

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$
$$= \frac{617,073}{8,249,947} \times 100\%$$
$$= 7.5\%$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 7.5% which is very low and so the company should try to cut off all unnecessary expenses.

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$
Administrative Expenses = $\frac{999,536}{2,108,753} \times 100\%$
$$= 47.4\%$$

$$\text{Sales and marketing Expenses} = \frac{1,075,569}{2,108,753} \times 100\%$$

$$= 51.0\%$$

$$\text{Impairment losses} = \frac{33,648}{2,108,753} \times 100\%$$

$$= 1.6\%$$

Interpretation; this shows that the sales and marketing expenses has a relatively higher weight than the rest expenses in relation to the total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$
 Sales and marketing expenses = $\frac{1,075,569}{8,249,947} \times 100\%$
 = 13.0%

$$\text{Administrative Expenses} = \frac{999,536}{8,249,947} \times 100\%$$

$$= 12.1\%$$

$$\text{Impairment losses} = \frac{33,648}{8,249,947} \times 100\%$$

$$= 0.4\%$$

Interpretation; Here, sales and marketing expenses is seen to have caused a greater deterioration in profit than that of admin expense and impairment losses.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{617,073,000 - 0}{980,000,000}$$

 = ₦0.63; 63kobo

Interpretation; this shows that there's a 63kobo net profit attributable to each ordinary share in issue and ranking for dividend during the period.

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$\begin{aligned} &= \frac{2.45}{0.63} \\ &= 3.8 \text{ times} \end{aligned}$$

Interpretation; this shows that the company has about 3.8 times/year assuming current earnings are maintained and taxation on dividend ignored to recoup shareholders investment either in the form of dividend received or capital growth.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$
 $= \frac{0.63}{2.45} \times 100\%$
 $= 25.7\%$

Interpretation; this shows that there's a 25.7% potential return on the shareholders' investment.

- Net asset per share = $\frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary shares issued}}$
 $= \frac{3,708,010,000}{980,000,000}$
 $= \text{N}3.78; 378 \text{ kobo}$

Interpretation; this shows a 378 kobo net assets attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$
 $= \frac{196,000,000}{980,000,000}$
 $= \text{N}0.2; 20 \text{ kobo}$

Interpretation; this shows that there's a 20 kobo gross dividend declared on every issued ordinary share ranking for dividend in the year

- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$
 $= \frac{0.2}{0.63} \times 100\%$
 $= 31.7\%$

Interpretation; this shows that a 31.7% of the company's distributable earnings is being paid to the ordinary shareholders in the form of dividend

- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$

$$\begin{aligned}
&= \frac{0.2}{2.45} \times 100\% \\
&= 8.2\%
\end{aligned}$$

Interpretation; this indicates that there's currently an 8.2% actual return on shareholders' investments.

- Dividend cover = $\frac{PAT - Pref\ dividend}{gross\ dividend}$

$$\begin{aligned}
&= \frac{617,073 - 0}{196,000} \\
&= 3.1
\end{aligned}$$

Interpretation; this shows that ordinary dividend is being covered by distributable earnings for about 3.1 times.

Long Term Solvency

- Gearing ratio = $\frac{net\ debts}{equity}$

$$\begin{aligned}
&= \frac{1,231,292}{3,708,011} \\
&= 0.34
\end{aligned}$$

Interpretation; this is lowly geared as its less than 1.

- Fixed interest capital = $\frac{PBIT}{fixed\ interest}$

$$\begin{aligned}
&= \frac{1,189,504}{1,231,292} \\
&= 0.97 \text{ times}
\end{aligned}$$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa. And here we can see the ratio is not so high.

- Total debt to shareholders fund = $\frac{non\ current\ liabilities + current\ liabilities}{equity}$

$$\begin{aligned}
&= \frac{4,427,555}{3,708,011} \\
&= 1.11; 119\%
\end{aligned}$$

Interpretation; this shows that the company would need 119% of its equity to settle all its total debts which is quite high and can cause a problem in the future.

INDUSTRIALS

Ratio Analysis of DANGOTE CEMENT PLC 2018 Annual Report

Short term solvency

- Current Ratio = $\frac{\text{current asset}}{\text{current liabilities}}$
$$= \frac{441,026}{284,759}$$
$$= 1.5:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.5:1 which is not totally safe for the business but then it's manageable as the business will still have left over assets after settling all its current liabilities.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$
$$= \frac{441,026 - 59,820}{284,759}$$
$$= 1.3:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 1.3:1 which is good as the company can cover its current liabilities without selling its inventories and as such portrays a good reputation for the company.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average receivables = $\frac{11,046 + 12,340}{2}$
$$= 11,693$$

Therefore R. C. P = $\frac{11,693}{618,301} \times 365 \text{days}$

$$=6.9\text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 6.9 days. That's to say it takes the company 7days approximately to collect its receivables while that of the PPP is 126 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365\text{days}$

$$\text{Where average payables} = \frac{117,808}{2}$$

$$=58,904$$

$$\text{Therefore P.C.P} = \frac{58,904}{170,288} \times 365\text{days}$$

$$=126.3\text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 7 and PPP is 126 approximately this simply means that the company has about 119 days after collecting its debt to put the cash into profitable use that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365\text{days}$

$$\text{Where average inventory} = \frac{59,820+62,259}{2}$$

$$=61,040$$

$$\text{Therefore, I.T.P} = \frac{61,040}{170,288} \times 365\text{days}$$

$$=130.8\text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 130.8 approximately 131days before

inventory was sold which is not good as capital would be tied down and some goods may be damaged.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$
$$= \frac{618,301}{11,693}$$
$$= 52.9 \text{ times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 52.9 times approximately 53 times in this reporting period. That's to say, the company collected its receivables 53 times this year which is too much and thus a sign of over trading.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$
$$= \frac{170,288}{117,808}$$
$$= 1.4 \text{ times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 1.4 times approximately once during this accounting period. that's to say, the company paid its payables once during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$
$$= \frac{170,288}{61,040}$$
$$= 2.8 \text{ times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, inventory was turned over 2.8 approximately 3 times.

Efficiency Ratio

- Return on capital employed = $\frac{\text{PAT} - \text{preferred dividend}}{\text{ordinary shareholders fund}}$
$$= \frac{481,456 - 0}{1,293,548}$$

$$=0.4$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is zero

- Gross profit percentage $=\frac{\text{gross profit}}{\text{sales}} \times 100\%$
 $=\frac{448,013}{618,301} \times 100\%$
 $=72.5\%$

Interpretation; The gross profit margin is 72.5%, which shows a clear evidence of management efficiency with respect to efficient utilization of its assets to generate economic benefits and enhanced returns as the higher it is the better.

- Net profit percentage $=\frac{\text{net profit}}{\text{sales}} \times 100\%$
 $=\frac{481,456}{618,301} \times 100\%$
 $=77.9\%$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 77.9% which is a good ratio and should be monitored.

- Expenses percentage $=\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$
Administrative Expenses $=\frac{27,108}{116,386} \times 100\%$
 $=23.3\%$

Selling and distribution Expenses $=\frac{89,278}{116,386} \times 100\%$
 $=76.7\%$

Interpretation; this result shows that selling and distribution expenses has a relatively higher weight than that of the admin expenses in relation to the total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\text{Administrative Expenses} = \frac{27,108}{618,301} \times 100\%$$

$$= 4.4\%$$

$$\text{Selling and Distribution Expenses} = \frac{89,278}{618,301} \times 100\%$$

$$= 14.4\%$$

Interpretation; Here, selling and distribution expenses is seen to have caused a greater deterioration in profit than that of admin expenses.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{481,456,000,000 - 0}{17,040,507,404}$$

$$= 28.25; 2825\text{kobo}$$

Interpretation; this shows that there's a 2825kobo net profit after tax attributable to each ordinary share in issue.

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{187.70}{28.25}$$

$$= 6.6\text{times}$$

Interpretation; this indicates that the company has about 7 times approximately if current earnings are maintained and taxation of dividend ignored to recoup shareholders investments in either dividend received or capital growth from retained earnings.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$

$$= \frac{28.25}{187.70} \times 100\%$$

$$= 15.1\%$$

Interpretation; this indicates that there's a 15.1% potential return on shareholders investments.

- Net asset per share = $\frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary shares issued}}$

$$\begin{aligned}
&= \frac{1,293,548,000,000}{17,040,507,404} \\
&= \text{N}75.91, 7591\text{kobo}
\end{aligned}$$

Interpretation; this indicates that there's 7591kobo of net assets attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$

$$\begin{aligned}
&= \frac{178,925,000,000}{17,040,507,404} \\
&= 10.50; 1050\text{kobo}
\end{aligned}$$

Interpretation; this shows that there's 1050kobo gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$

$$\begin{aligned}
&= \frac{10.50}{28.25} \times 100\% \\
&= 37.2\%
\end{aligned}$$

Interpretation; this indicates that a 37.2% of the company's distributable earnings has been paid to the shareholder's in form of dividend.

- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$

$$\begin{aligned}
&= \frac{10.50}{187.70} \times 100\% \\
&= 5.6\%
\end{aligned}$$

Interpretation; this indicates that there's currently a 5.6% actual return on shareholders' investments.

- Dividend cover = $\frac{\text{PAT-Pref dividend}}{\text{gross dividend}}$

$$\begin{aligned}
&= \frac{481,456-0}{178,925} \\
&= 2.7\%
\end{aligned}$$

Interpretation; this shows that ordinary dividend has been covered by distributable earnings for about 2.7times.

Long Term Solvency

- Gearing ratio = $\frac{\text{debts}}{\text{equity}}$

$$\begin{aligned}
&= \frac{89,265}{1,293,548}
\end{aligned}$$

$$=0.07; 7\%$$

Interpretation; this is lowly geared

- Fixed interest capital $= \frac{PBIT}{\text{fixed interest}}$
 $= \frac{335,410}{89,265}$
 $=3.7\text{times}$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa. And here it is 3.7times which is not so high but can be improved.

- Total debt to shareholders fund $= \frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$
 $= \frac{428,426}{1,293,548}$
 $=0.33; 33\%$

Interpretation; this shows that the company would need 33% of its equity to settle its total debts.

Ratio Analysis of BETA GLASS 2018 Annual Report

Short term solvency

- Current Ratio $= \frac{\text{current asset}}{\text{current liabilities}}$
 $= \frac{28,550,830}{13,723,312}$
 $=2.1:1$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 2.1:1 which is an ideal ratio for a business, here the company is able to settle all its future bills on time and still have left over assets.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$

$$= \frac{28,550,830 - 6,239,740}{13,723,312}$$

$$= 1.6:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 1.6:1 and this portrays a good reputation for the company as it can cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{ days}$

Where average receivables = $\frac{13,438,292 + 14,377,983}{2}$

$$= 13,908,137.5$$

Therefore R. C. P = $\frac{13,908,138}{26,321,014} \times 365 \text{ days}$

$$= 192.9 \text{ days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 192.9 days. That's to say it takes the company 193 days approximately to collect its receivables while that of the PPP is 154.5 days approximately, and this doesn't give the company the time to utilize its cash before it pays its debt so it has to look for other motives.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{ days}$

Where average payables = $\frac{11,598,037 + 5,282,430}{2}$

$$= 8,440,234$$

Therefore P.C.P = $\frac{8,440,234}{19,940,375} \times 365 \text{ days}$

$$= 154.5 \text{ days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 193 and PPP is 156 approximately, the company doesn't have that spare/ extra time to make extra cash in order to be able to pay off its payables. As it has to pay its payables some days before collecting his receivables. This is not really ideal or safe as the company may not have enough money pay its payables just yet.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

$$\text{Where average inventory} = \frac{6,239,740 + 5,025,216}{2}$$

$$= 5,632,478$$

$$\text{Therefore, I.T.P} = \frac{5,632,478}{19,940,375} \times 365 \text{days}$$

$$= 103.1 \text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 103.1 approximately 103 days before inventory was sold which is not good as capital would be tied down.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$

$$\frac{26,321,014}{13,908,138}$$

$$= 1.9 \text{times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 1.9 times approximately 2 times in this reporting period. That's to say, the company collected its receivables 2 times this year.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$

$$\frac{19,940,375}{8,440,234}$$

$$= 2.4 \text{times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 2.4 times approximately 2 during this accounting period. that's to say, the company paid its payables 2 times during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$

$$\frac{19,940,375}{5,632,478}$$

$$=3.5\text{times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, the inventory turnover is 3.5 approximately 4.

Efficiency Ratio

- Return on capital employed = $\frac{\text{PAT} - \text{preferred dividend}}{\text{ordinary shareholders fund}}$

$$\frac{5,052,805 - 0}{29,627,573}$$

$$=0.2; 20\%$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is zero.

- Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$

$$\frac{6,380,639}{26,321,014} \times 100\%$$

$$=24.2\%$$

Interpretation; The gross profit margin is 24.2% which is quite low and should be worked on to avoid future problems.

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$

$$\frac{5,052,805}{26,321,014} \times 100\%$$

$$=19.2\%$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 19.2% which is low and not good for the business.

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$

$$\text{Selling and Distribution Expenses} = \frac{81,161}{1,326,350} \times 100\%$$

$$=6.1\%$$

$$\text{Administrative Expenses} = \frac{1,245,189}{1,326,350} \times 100\%$$

$$=93.9\%$$

Interpretation; this shows that admin expenses has a relatively higher weight than that of selling and distribution expense in relation to the total expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\text{Selling and Distribution Expenses} = \frac{81,161}{26,321,014} \times 100\%$$

$$=0.3\%$$

$$\text{Administrative Expenses} = \frac{1,245,189}{26,321,014} \times 100\%$$

$$=4.7\%$$

Interpretation; Here, administrative expenses is seen to have caused a greater deterioration in profit than that of selling and distribution expense.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{5,052,805,000 - 0}{499,972,000}$$

$$= \text{N}10.11; 1011\text{kobo}$$

Interpretation; this shows that there's 1011kobo of net profit after tax attributable to each ordinary share in issue

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{68.30}{10.11}$$

$$= 6.7 \text{times}$$

Interpretation; this indicates that the company has about 6.7times/years to recoup shareholders investment in dividend received or capital growth from retained earnings.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$

$$= \frac{10.11}{68.30} \times 100\%$$

$$= 0.1\%$$

Interpretation; this indicates that there's 0.1% potential return on shareholders investments.

- Net asset per share = $\frac{\text{net asset-preference share capital}}{\text{no of ordinary shares issued}}$

$$= \frac{29,627,573-0}{499,972}$$

$$= \text{N}59.26; 5926 \text{kobo}$$

Interpretation; this shows that there's 5826kobo of net assets attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{534970}{499,972}$$

$$= \text{N}1.07; 107 \text{kobo}$$

Interpretation; this indicates that there's about a 107kobo gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$

$$= \frac{1.07}{10.11} \times 100\%$$

$$= 10.6\%$$

Interpretation; this indicates that a 10.6% of the company's distributable earnings has been paid to the ordinary shareholders in the form of dividend.

- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$
 $= \frac{1.07}{68.30} \times 100\%$
 $= 1.6\%$

Interpretation; this indicates that there's currently a 1.6% actual return on shareholders' investments.

- Dividend cover = $\frac{\text{PAT} - \text{Pref dividend}}{\text{gross dividend}}$
 $= \frac{5,052,805 - 0}{534,970}$
 $= 9.4\text{times}$

Interpretation; this shows that ordinary dividend has been covered by distributable earnings for 9.4times.

Long Term Solvency

- Gearing ratio = $\frac{\text{debts}}{\text{equity}}$
 $= \frac{3,823,823}{29,627,573}$
 $= 0.13; 13\%$

Interpretation; this is lowly geared

- Fixed interest capital = $\frac{\text{PBIT}}{\text{fixed interest}}$
 $= \frac{5,893,657}{3,823,823}$
 $= 1.5\text{times}$

Interpretation; This ratio measures the number of times fixed interest is covered by profit; the higher this ratio, the higher the level of confidence of lenders in the ability of the entity to repay loans granted to it and vice versa.

- Total debt to shareholders fund = $\frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$
 $= \frac{16,452,056}{29,627,573}$
 $= 0.55; 55\%$

Interpretation; this shows that the company would need 55% of its equity to settle its total debts.

OIL AND GAS

Ratio Analysis of SEPLAT 2019 Annual Report

Short term solvency

- Current Ratio = $\frac{\text{current asset}}{\text{current liabilities}}$
$$= \frac{539,423}{246,851}$$
$$= 2.2:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 2.2:1 which is an ideal ratio for a business, here the company is able to settle all its future bills on time and still have left over assets.

- Acid test ratio = $\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$
$$= \frac{539,423 - 24,315}{246,851}$$
$$= 2.1:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 2.1:1 which is more than the universal norm and this portrays a good reputation for the company as it can cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

$$\text{Where average receivables} = \frac{423,475 + 318,997}{2}$$
$$= 371,236$$

$$\text{Therefore R. C. P} = \frac{371,236}{200,733} \times 365 \text{days}$$

$$= 675 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 675 days. That's to say it takes the company 675 days approximately to collect its receivables while that of the PPP is 756 days approximately, which gives the company time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$

$$\text{Where average payables} = \frac{215,669 + 140,398}{2}$$

$$= 178,034$$

$$\text{Therefore P.C.P} = \frac{178,034}{85,987} \times 365 \text{days}$$

$$= 755.7 \text{days}$$

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 675 and PPP is 756 approximately this simply means that the company has about 81 days after collecting its debt to put the cash into profitable use that would yield more profit before paying its payables due. Hence this is a stable ratio that should be monitored and possibly improved to give the company more time because the longer the time the better it is.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

$$\text{Where average inventory} = \frac{24,315 + 30,400}{2}$$

$$= 27,358$$

$$\text{Therefore, I.T.P} = \frac{27,358}{85,987} \times 365 \text{days}$$

$$= 116.1 \text{days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 116.1 approximately 116 days before inventory was sold which is not good as capital would be tied down.

- Receivables turnover = $\frac{\text{credit sales}}{\text{average receivables}}$

$$\frac{200,733}{371,236}$$

$$=0.5\text{times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each N1 of receivables, hence this shows that receivables were turned over 0.5 times approximately once in this reporting period. That's to say, the company collected its receivables once this year which is too low.

- Payables turnover = $\frac{\text{credit purchases}}{\text{average payables}}$

$$\frac{85,987}{178,034}$$

$$=0.5\text{times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 0.5 times approximately once during this accounting period. that's to say, the company paid its payables once during this accounting period.

- Inventory turnover = $\frac{\text{cost of sales}}{\text{average inventory}}$

$$\frac{85,987}{27,358}$$

$$=3.1\text{times}$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, the inventory turnover is 3.1.

Efficiency Ratio

- Return on capital employed = $\frac{PAT - \text{preferred dividend}}{\text{ordinary shareholders fund}}$

$$= \frac{66,129 - 0}{577,223}$$

$$= 0.1$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is zero

- Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$

$$= \frac{114,746}{200,733} \times 100\%$$

$$= 57.2\%$$

Interpretation; The gross profit margin is 57.2%, which shows a clear evidence of management efficiency with respect to efficient utilization of its assets to generate economic benefits and enhanced returns

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$

$$= \frac{66,129}{200,733} \times 100\%$$

$$= 32.9\%$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 32.9% which can be improved as it's not close to average.

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$

There's just one expense, so it can't be compared to other expenses.

$$\text{General and admin Expenses} = \frac{17,044}{17,044} \times 100\%$$

$$= 1\%$$

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$

$$\text{General and admin Expenses} = \frac{17,044}{200,733} \times 100\%$$

$$=8.5\%$$

Interpretation; there's just one expense.

Investors/ shareholders Ratio

- Earnings per share $= \frac{PAT - Preferred\ dividend}{no\ of\ ordinary\ shares\ issued}$
 $= \frac{66,129,000,000 - 0}{575,321,598}$
 $= \text{₦}115; 11500\text{kobo}$

Interpretation; this indicates that there's a 11500kobo net profit after tax attributable to each ordinary share in issue.

- Price earnings ratio $= \frac{market\ price\ per\ share}{earnings\ per\ share}$
 $= \frac{657.80}{115}$
 $=5.72$

Interpretation; this indicates that the company has about 5.72years to recoup its shareholders investments in either dividend received or capital growth from retained earnings if current earnings are maintained and taxation of dividend ignored.

- Earnings yield $= \frac{Earnings\ per\ share}{market\ price\ per\ share} \times 100\%$
 $= \frac{115}{657.80} \times 100\%$
 $=17.5\%$

Interpretation; this shows that there's a 17.5% potential return on shareholders' investments.

- Net asset per share $= \frac{net\ asset - preference\ share\ capital}{no\ of\ ordinary\ shares\ issued}$
 $= \frac{577,223,000,000 - 0}{575,321,598}$
 $= \text{₦}1003.9; 100390\text{kobo}$

Interpretation; this indicates that there's 100390kobo of net assets attributable to each ordinary share in issue.

- Dividend per share $= \frac{gross\ dividend}{no\ of\ ordinary\ shares\ issued}$
 $= \frac{8,831,000,000}{575,321,598}$

=N15.36; 1536kobo

Interpretation; this shows that there's 1536kobo gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$
 $= \frac{15.36}{115} \times 100\%$
 $= 13.4\%$

Interpretation; this shows that a 13.4% of the company's distributable earnings was paid to the ordinary shareholders in from of dividend.

- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$
 $= \frac{15.36}{657.80} \times 100\%$
 $= 2.3\%$

Interpretation; this indicates that there's currently a 2.3% actual return on shareholders' investments.

- Dividend cover = $\frac{\text{PAT} - \text{Pref dividend}}{\text{gross dividend}}$
 $= \frac{66,129 - 0}{8831}$
 $= 7.4\text{times}$

Interpretation; this shows the number of times ordinary dividend is covered by distributable earnings which is 7.4times.

Long Term Solvency

- Gearing ratio = $\frac{\text{debts}}{\text{debt} + \text{equity}}$
 $= \frac{131,325}{708548}$
 $= 0.19; 19\%$

Interpretation; this less than 1 and so it is lowly geared.

- Fixed interest capital = $\frac{\text{PBIT}}{\text{fixed interest}}$
 $= \frac{277,108}{131,325}$

=2.1times

Interpretation; This ratio measures the number of times fixed interest is covered by profit. Here it is 2.1times which is not high and the higher the ratio, the higher the level of confidence of the lenders in the ability for the company to repay loans.

- Total debt to shareholders fund =
$$\frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$$
$$\frac{480,566}{577,223}$$
$$=83.3\%$$

Interpretation; this measures the solvency of the business and indicates the extent of cover for external liabilities, the higher it, the higher the exposure. Here, it is 83.3% which is high.

Ratio Analysis of MOBIL PLC 2018 Annual Report

Short term solvency

- Current Ratio =
$$\frac{\text{current asset}}{\text{current liabilities}}$$
$$\frac{34,183,632}{19,327,761}$$
$$=1.8:1$$

Interpretation; This ratio measures the ability of an entity to meet its current liabilities, as they fall due, out of its current assets; a low current ratio indicates that the business may be unable to pay its future bills on time, particularly, if a slowdown occurs in collections from receivables, a high current ratio may indicate an excessive amount of current assets and managements failure to utilize the resources of the business. The universal average of current ratio is a 2:1, but here the ratio is 1.8:1 which is not totally the ideal ratio, but it can be managed for the time being as it can still settle some of its future bills but then it is necessary for the company to still improve themselves.

- Acid test ratio =
$$\frac{\text{current asset} - \text{inventory}}{\text{current liabilities}}$$
$$\frac{34,183,632 - 17,918,599}{19,327,761}$$
$$=0.8:1$$

Interpretation; The ratio indicates the liquidity of an entity by measuring the relative amount of cash and other near liquid assets available to meet current liabilities. Hence, it is a

relatively strong indicator of liquidity. The ideal universal norm quick ratio of a company is 1:1. But here, the ratio is 0.8:1 and this doesn't portray a good reputation for the company as it cannot cover its current liabilities without selling its inventories.

- Receivables collection period = $\frac{\text{average receivables}}{\text{credit sales}} \times 365 \text{days}$

Where average receivables = $\frac{11,513,890 + 11,991,262}{2}$
 = 11,752,576

Therefore R. C. P = $\frac{11,752,576}{164,609,535} \times 365 \text{days}$
 = 26.1 days

Interpretation; This ratio measures the average number of days for which trade debts remains uncollected; this ratio should be compared alongside with the payables payment period to know whether the company can put the money collected from its debtors to a profitable use before it pays its creditors. Ideally, the RCP should always be less than the PPP. Here, the account receivables of the company remain uncollected for 26.1 days. That's to say it takes the company 26 days approximately to collect its receivables while that of the PPP is 34 days approximately, which gives the company little time to utilize its cash.

- Payables collection period = $\frac{\text{average payables}}{\text{credit purchases}} \times 365 \text{days}$

Where average payables = $\frac{8,212,101 + 19,543,153}{2}$
 = 13,877,627

Therefore P.C.P = $\frac{13,877,627}{148,015,916} \times 365 \text{days}$
 = 34.2 days

Interpretation; This ratio measures the average number of days for which trade payables remain unpaid. Seeing that the RCP is 26 and PPP is 34 approximately this simply means that the company has about 8 days after collecting its debt which is not really so much to put the cash into profitable use that would yield more profit before paying its payables due. Hence this isn't really a stable ratio and so it should be improved and made better so as to have enough time to yield more profit from the receivables collected.

- Inventory turnover period = $\frac{\text{average inventory}}{\text{cost of sales}} \times 365 \text{days}$

$$\text{Where average inventory} = \frac{17,918,599 + 7,948,601}{2}$$

$$= 12,933,600$$

$$\text{Therefore, I.T.P} = \frac{12,933,600}{148,015,916} \times 365 \text{ days}$$

$$= 31.9 \text{ days}$$

Interpretation; This ratio measures the average number of days inventory remains in the store before being sold out. The higher the number of days inventory is held, the worse it is for the company. Here it takes the company 31.9 approximately 31 days before inventory was sold which is not so good.

- $\text{Receivables turnover} = \frac{\text{credit sales}}{\text{average receivables}}$

$$= \frac{164,609,535}{11,752,576}$$

$$= 14.0 \text{ times}$$

Interpretation; This ratio measures the average number of times trade receivables are turned over during the reporting period; it is also a measure of activity. It also measures the amount of sales achieved during the year for each NI of receivables, hence this shows that receivables were turned over 14 times approximately 14 times in this reporting period. That's to say, the company collected its receivables 14 times this year.

- $\text{Payables turnover} = \frac{\text{credit purchases}}{\text{average payables}}$

$$= \frac{148,015,916}{13,877,627}$$

$$= 10.7 \text{ times}$$

Interpretation; This ratio measures the average number of times trade payables are turned over during the payable's payment period; it is also a measure of activity. Thus, this shows that payables were turned over 10.7 times approximately 11 during this accounting period. That's to say, the company paid its payables 11 times during this accounting period.

- $\text{Inventory turnover} = \frac{\text{cost of sales}}{\text{average inventory}}$

$$= \frac{148,015,916}{12,933,600}$$

$$= 11.4$$

Interpretation; This ratio measures the physical turnover of trading inventory during the period; the higher the better but if too high may be an indication of overtrading. Here, the inventory turnover is 11.4.

Efficiency Ratio

- Return on capital employed = $\frac{PAT - \text{preferred dividend}}{\text{ordinary shareholders fund}}$
$$= \frac{9,328,935 - 0}{33,772,775}$$
$$= 0.3; 30\%$$

Interpretation; This is the primary ratio indicating the efficiency or otherwise of management in employing or utilizing the resources available. The higher the ROCE, the more efficient is the utilization of resources and vice versa. Here, the ROCE is not so high

- Gross profit percentage = $\frac{\text{gross profit}}{\text{sales}} \times 100\%$
$$= \frac{16,593,619}{164,609,535} \times 100\%$$
$$= 10.1\%$$

Interpretation; The gross profit margin is 10.1% which is very low and can cause future problems if not worked on immediately.

- Net profit percentage = $\frac{\text{net profit}}{\text{sales}} \times 100\%$
$$= \frac{9,328,935}{164,609,535} \times 100\%$$
$$= 5.7\%$$

Interpretation; This ratio expresses the relative profitability of the business after taking into consideration all incomes and all expenses, it is an indicator of the business' ability to withstand adverse conditions, which may arise from several sources; the higher it is for the company, the better it is and vice versa. Here the profitability is 5.7% which is quite low.

- Expenses percentage = $\frac{\text{individual expenses}}{\text{total expenses}} \times 100\%$
Administrative Expenses = $\frac{5,024,634}{11,977,991} \times 100\%$
$$= 41.9\%$$

Selling and distribution Expenses = $\frac{6,924,989}{11,977,991} \times 100\%$
$$= 57.8\%$$

$$\begin{aligned}\text{Other operating expenses} &= \frac{28,368}{11,977,991} \times 100\% \\ &= 0.2\%\end{aligned}$$

Interpretation; here, selling and distribution expense is seen to have a relative higher weight than that of the admin expense and other expenses.

- Expenses to sales = $\frac{\text{individual expenses}}{\text{sales}} \times 100\%$
 Selling and distribution Expenses = $\frac{6,924,989}{164,609,535} \times 100\%$
 = 4.2%
 Administrative Expenses = $\frac{5,024,634}{164,609,535} \times 100\%$
 = 3.1%
 Other operating expenses = $\frac{28,368}{164,609,535} \times 100\%$
 = 0.0%

Interpretation; Here, sales and distribution expenses is seen to have caused a greater deterioration in profit than that of admin expense and other expenses.

Investors/ shareholders Ratio

- Earnings per share = $\frac{\text{PAT} - \text{Preferred dividend}}{\text{no of ordinary shares issued}}$

$$= \frac{9,328,935,000 - 0}{360,595,261}$$

 = ₦25.87; 2,587kobo

Interpretation; this indicates that there's a 2587kobo net profit after tax attributable to each ordinary share in issue.

- Price earnings ratio = $\frac{\text{market price per share}}{\text{earnings per share}}$

$$= \frac{185.50}{25.87}$$

 = 7.2times

Interpretation; this indicates that the company has about 7.2years to recoup its shareholders investment in either dividend received or capital growth from retained earnings assuming current earnings are maintained and taxation of dividend ignored.

- Earnings yield = $\frac{\text{Earnings per share}}{\text{market price per share}} \times 100\%$
 $= \frac{25.87}{185,50} \times 100\%$
 $= 13.9\%$

Interpretation; this shows that there's a 13.9% potential return on shareholders' investments.

- Net asset per share = $\frac{\text{net asset} - \text{preference share capital}}{\text{no of ordinary shares issued}}$
 $= \frac{33,772,775,000 - 0}{360,595,261}$
 $= \text{N}93.7; 9370\text{kobo}$

Interpretation; this indicates that there's 9370kobo net assets attributable to each ordinary share in issue.

- Dividend per share = $\frac{\text{gross dividend}}{\text{no of ordinary shares issued}}$
 $= \frac{2,884,762}{360,595,261}$
 $= \text{N}8.25; 825\text{kobo}$

Interpretation; this shows that there's 825kobo gross dividend declared on every issued ordinary share ranking for dividend in the year.

- Dividend pay-out = $\frac{\text{dividend per share}}{\text{earnings per share}} \times 100\%$
 $= \frac{8.25}{25.87} \times 100\%$
 $= 31.9\%$

Interpretation; this indicates that a 31.9% of the company's distributable earnings is being paid to the ordinary shareholders in the form of dividend.

- Dividend yield = $\frac{\text{dividend per share}}{\text{market price per share}} \times 100\%$
 $= \frac{8.25}{185.50} \times 100\%$
 $= 4.4\%$

Interpretation; this indicates that there's currently a 4.4% actual return on shareholders' investments.

- Dividend cover = $\frac{\text{PAT} - \text{Pref dividend}}{\text{gross dividend}}$
 $= \frac{9,328,935 - 0}{2,884,762}$

=3.2times.

Investments; this measures the number of times ordinary dividends is covered by distributable earnings which is 3.2times

Long Term Solvency

- Gearing ratio = $\frac{\text{debts}}{\text{equity}}$
$$= \frac{1,109,177}{33,772,775}$$
$$= 0.0$$

Interpretation; here, our answer is lower than one meaning the company is lowly geared.

- Fixed interest capital = $\frac{\text{PBIT}}{\text{fixed interest}}$
$$= \frac{13,242,367}{1,109,177}$$
$$= 11.9\text{times}$$

Interpretation; This ratio measures the number of times fixed interest is covered by profit. Here it is 11.9times and the higher the ratio, the higher the level of confidence of the lenders in the ability for the company to repay loans.

- Total debt to shareholders fund = $\frac{\text{non current liabilities} + \text{current liabilities}}{\text{equity}}$
$$= \frac{36,888,023}{33,772,775}$$
$$= 109\%$$

Interpretation; This ratio is a measure of the solvency of a business and indicates the extent of cover for external liabilities; the higher this ratio, the higher the exposure. Here, the ratio is 109% which is quite high.

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