

CAPITAL GEARING:

Maxim Limited and Mojo Limited are two companies that operate in the same commercial sector. An examination of the companies' most recent financial results have revealed the following:

	Maxim	Mojo
Net Assets	1,680,000	2,280,000
	=====	=====
Financed by:		
Ordinary Share Capital (€1.00 each)	100,000	100,000
Retained Earnings	940,000	520,000
Long Term Borrowings	<u>640,000</u>	<u>1,660,000</u>
	<u>1,680,000</u>	<u>2,280,000</u>
Profit before financial charges	336,000	456,000
Financial charges - Loan Interest	<u>51,200</u>	<u>132,800</u>
Profit before taxation	<u>284,800</u>	<u>323,200</u>
Taxation	<u>42,720</u>	<u>48,480</u>
Profit after taxation	<u>242,080</u>	<u>274,720</u>

a. Compute for each company:

- The Gearing Ratio
- Return On Capital Employed
- Average Cost of Debt
- Times Interest Covered
- Earnings per share.

b. Comment on the risk-return factor in high gearing making reference to your calculations at a.

