

# **Class - XII**

## **ANALYSIS OF FINANCIAL STATEMENTS**

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# 1 Financial Statements of a Company

## SOLVED PRACTICAL PROBLEMS

**Q.1. What are the major heads in the Equity and Liabilities part of the Balance Sheet as per Schedule III?**

**Ans.** Statement showing Major head in Equity and Liabilities.

<i>Particulars</i>	<i>Note No.</i>	<i>₹</i>
I. Equity & Liabilities		—
1. Shareholder's fund		—
2. Share application money pending allot.		—
3. Non-current Liabilities		—
4. Current Liabilities		—
Total equity and Liabilities		—

**Q.2. Under which major head will the following be shown:**

**(i) Share Capital; and (ii) Money Received Against Share Warrants.**

**Ans.**

<i>S. No.</i>	<i>Name of Item</i>	<i>Major head</i>
1.	Share capital	Shareholder's fund
2.	Money received against share warrants	Shareholder's fund

**Q.3. List any five items that are shown under Reserves and Surplus.**

**Ans.** Statement showing five items under Res. and Surplus.

<i>S. No.</i>	<i>Name of Item</i>	<i>₹</i>
1.	Reserve and Surplus	—
	(a) Surplus as per statement of P & L	—
	(b) General Reserve	—
	(c) Security Premium Reserve	—
	(d) Investment Fluctuation Reserve	—
	(e) Workmen Compensation Reserve	—

**Q.4. Under which sub-head will the following be classified or shown:**

**(i) Long-term Borrowings, (ii) Deferred Tax Liabilities (Net); and (iii) Long-term Provisions.**

**Ans.**

<i>S. No.</i>	<i>Name of Item</i>	<i>Sub-head</i>
1.	Long-term Borrowings	Now-current Liabilities
2.	Deferred Tax Liabilities (Net)	—do—
3.	Long-term Provisions	—do—

**Q.5. Name the items that are shown under Long-term Borrowings.**

**Ans.**

<i>Note No.</i>	<i>Particulars</i>	<i>₹</i>
1.	Long-term Borrowings	—
	(a) Debentures	—
	(b) Long-term loan from bank	—
	(c) Long-term loan from others	—
	(d) Bonds	—
	(e) Public deposits	—
	(f) Other Long-term loans	—

**Q. 6. A company has an opening credit balance is Surplus, i.e., Balance in Statement of Profit and Loss ₹ 1,00,000. During the year, it earned a profit of ₹ 75,000. It decided to transfer ₹ 15,000 to Debenture Redemption Reserve (DRR) and also proposed to pay dividend of ₹ 25,000. How will be the appropriations shown in the financial statements?**

**Ans. Extract of Balance Sheet**

<i>Particulars</i>	<i>Note No.</i>	<i>₹</i>
I Equity and Liabilities		—
1. Shareholder's fund		
(a) Reserve and Surplus	1	1,75,000

**(i) Proposed dividend of ₹ 25,000 for the year**

**Notes to Accounts**

<i>Note No.</i>	<i>Particulars</i>	<i>₹</i>	<i>₹</i>
1.	Reserve and Surplus		
	(a) Surplus as per Statement of P & L:		
	Opening Balance ₹ 1,00,000		
	Add: Current year profit 75,000		
	1,75,000		
	Less: Transfer to D/R/R 15,000		
	1,60,000	1,60,000	
(b)	Debenture Red. Reserve	15,000	1,75,000

**Q.7. State giving reason whether Trade receivable are classified as current assets or non-current assets in the balance sheet of a company as per schedule III in the following cases**

<i>Case</i>	<i>Operating Cycle Period (Months)</i>	<i>Expected Realisation Period (Months)</i>
1	10	11
2	10	12
3	10	13
4	14	13
5	15	16

**Ans. Statement showing classification of Trade receivables.**

<b>Case</b>	<b>C.Assets or Non-C. Assets</b>	<b>Reason</b>
(i)	Current assets	Expected realisation period: is more than operating cycle and is within 12 months from the balance sheet
(ii)	Current assets	Expected realisation period: is 12 months; equal to period of 12 months from the date of B. sheet and is more than the period of operating cycle
(iii)	Non-current assets	Expected realisation period: is more than the operating cycle period and is more than the period of 12 months from the date of balance sheet.
(iv)	Current assets	Expected realisation period: is less than the period of operating cycle although it is more than the period of 12 months from B.sheet
(v)	Non-current assets	Expected realisation period: is more than the period of operating cycle and also 12 months from the B. sheet.

**Q.8. State giving reason whether Trade payables are classified as current liabilities or Non-current liabilities in the balance sheet of a company as per schedule III of the companies Act, 2013 in the following cases:**

<b>Case</b>	<b>Operating Cycle Period (Months)</b>	<b>Expected Payment Period (Months)</b>
1	10	11
2	10	12
3	10	13
4	14	13
5	15	16

**Ans. Statement showing classification of Trade Payables**

<b>Case</b>	<b>C.Liabilities or Non-C. Liab.</b>	<b>Reason</b>
(i)	Current Liabilities	Expected Payment period: is more than operating cycle and is within 12 months from the Balance sheet
(ii)	Current liabilities	Expected payment period: is 12 months equal to period of 12 months from the balance sheet and is more than the period of operating cycle
(iii)	Non-current liabilities	Expected payment period: is more than the period of operating cycle and is more than the 12 months period from Balance sheet.



(iv)	Current liabilities	Expected payment period: is less than the period of operating cycle although it is more than the 12 months period from balance sheet.
(v)	Non-current liabilities	Expected payment period: is more than the period of operating cycle and also 12 months period from balance sheet.

**Q.9. Under which head and how are the following items shown in the balance sheet of a company under schedule III:**

**(i) Calls-in-Areas; (ii) Share application money pending allotment; (iii) Unpaid dividend; and (iv) Dividend not paid on cumulative preference shares.**

**Ans.**

S.No.	Items	Heads	Shown as
1.	Calls in Arrear	Shareholder's fund	Deduction from subscribed capital
2.	Share app. money pending allot.	Separate major head	Separately shown in equity and liab.
3.	Unpaid dividends	Current liabilities	Add in other current liabilities
4.	Divi. not paid on cumu. pref. share	Notes to accounts	Shown as contingent liabilities

**Q.10. Under which main head and sub-head of equity and liabilities part of the balance sheet are the following items classified or shown:**

**(i) Bonds; (ii) Debentures; (iii) Deposits; (iv) Capital redemption reserve; (v) Forfeited account; (vi) Sundry creditors; and (viii) Interest accrued but not due on debentures.**

**Ans.**

S.No.	Items	Major heads	Sub-head
1.	Bonds	Non-current liabilities	Long-term borrowings
2.	Debenture	-do-	-do-
3.	Deposits	-do-	-do-
4.	Capital redemption reserve	Share holder fund	Reserve & Surplus
5.	Share. F/F A/c.	-do-	Share capital
6.	Sundry creditors	Current liabilities	Trade payables
7.	Int. Acc. but not due on deb.	-do-	Other current liabilities

**Q.11. State any two items that are included in the following major heads under which liabilities of a company are shown; (i) Reserves and surplus; (ii) Long-term borrowings; (iii) Short term borrowings; (iv) Other current liabilities.**

**Ans. Notes to accounts**

Note No.	Particulars	₹
1.	Reserves & Surplus	
	(a) Surplus as per stat. of P & L	—
	(b) Security premium Reserve	—
2.	Long-term borrowings	
	(a) Debentures	—
	(b) Terms-loan from bank	—

3.	Short-term borrowings;	
	(a) Bank overdraft	—
	(b) Short-term loan from bank & others	—
4.	Other Current Liabilities	
	(a) Outstanding expenses	—
	(b) Unpaid dividend	—

**Q.12. Classify the following items under major head and sub-head (if any) in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013—**  
**(i) Capital Work-in-Progress; (ii) Provision for Warranties; (iii) Income received in Advance; and (iv) Capital Advances. (Delhi and AI 2017 C)**

**Ans.**

**Table**

Particulars	Major Heads	Sub-Heads
(i) Capital Work-in Progress	Non-Current Assets	Fixed Assets
(ii) Provision for Warranties	Non-Current Liabilities	Long-term Provision
(iii) Income Received Advance	Current Liabilities	Other Current Liabilities
(iv) Capital Advances	Non-Current Assets	Long-term Loans and Advance

**Q.13. Under which major head and sub-head of the assets part of the balance sheet will the following be shown:**

**(i) Intangible assets; (ii) Intangible assets under development; (iii) Investment (more than 12 months); (iv) Deferred tax assets (Net); (v) Stores and spares; and (vi) Loose tools.**

**Ans.**

S.No.	Items	Major heads	Sub-head
1.	Intangible assets	Non-current assets	Fixed assets
2.	Intangible assets U/Devep	-do-	-do-
3.	Investments (M.T. 12 months)	-do-	Non-current inves.
4.	Deferred tax assets	-do-	Deferred Tax assets (Net)
5.	Stores and spares	Current assets	Inventories
6.	Loose tools	-do-	-do-

**Q.14. Under what heads the following items are classified or shown on the assets part of the balance sheet of a company: (i) Loose tools; (ii) Bills receivable; (iii) Sundry debtors; and (iv) Advances recoverable in cash.**

**Ans.**

S.No.	Items	Sub-heads	Major-head
1.	Loose tools	Inventories	Currents assets
2.	Bills receivable	Trade receivable	-do-
3.	Sundry debtors	-do-	-do-
4.	Advance received in cash	Short-term loan & advance	-do-

**Q.15. Under what heads the following items on the assets part of the balance sheet of a company will be presented:**

**(i) Sundry debtors; (ii) Patents and trademarks; (iii) Shares in Quoted companies; (iv) Bills receivable; (v) Advances recoverable in cash; (vi) Prepaid insurance; and (vii) work-in-progress.**

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Sub-heads</i>	<i>Major-head</i>
1.	Sundry debtors	Trade receivable	Current assets
2.	Patent and trade marks	Intangible assets	-do-
3.	Shares in quoted co.	Non-current investment	-do-
4.	Bills receivables	Trade receivables	Current assets
5.	Adv. recev. in cash	Other current assets	-do-
6.	Prepaid insurance	-do-	-do-
7.	Work-in-progress	Capitall work-in-progress	Non-current assets

**Q. 16.** Under which of the major heads will the following items be shown while preparing the balance sheet of a company, as per schedule III of the companies act, 2013:

(i) Unamortized loss on issue of debentures (To be written off after 12 months from the date of balance sheet); (ii) 10% Debentures; (iii) Stock-in-trade; (iv) Cash at bank; (v) Bills receivable; (vi) Good will; (viii) Loose tools; (viii) Truck; (ix) Provision for tax; and (x) Sundry Creditors.

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major heads</i>	<i>Sub-head</i>
1.	Loss on issue of Debentures	Other non-current assets	Non-current assets
2.	10% Debentures	Long-term borrowing	Non-current liab.
3.	Stock-in-trade	Inventories	Current assets
4.	Cash at bank	Cash & cash equivalents	-do-
5.	Bills receivable	Trade receivables	-do-
6.	Goodwill	Intangible assets	Non-current assets
7.	Loose tools	inventories	Current assets
8.	Truck	Tangible assets	Non-current assets
9.	Provision for tax	Short-term prov.	Current liabilities
10.	Sundry creditors	Trade payables	-do-

**Q. 17.** Under which heads will the following items be shown in the balance sheet of a company:

(i) Bank balance; (ii) Investment (long-term); (iii) Outstanding salary; (iv) Authorised capital; (v) Bills payable; (vi) Unclaimed dividends; (vii) Shares option outstanding account; (viii) General reserve; and (ix) Subsidy reserve?

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major heads</i>	<i>Sub-head</i>
1.	Bank balance	Cash & cash equivalents	Current assets
2.	Investment (long-term)	Non-current investment	Non-current assets
3.	Outstanding salary	Other current liabilities	Current liabilities

4.	Authorised capital	Share capital	Shareholder's fund
5.	Bills payables	Trade payables	Current liabilities
6.	Unclaimed div.	Other current liabilities	-do-
7.	Share option O/s account	Reserve & surplus	Shareholders funds
8.	General reserve	-do-	-do-
9.	Subsidy reserve	-do-	-do-

**Q. 18. Under which heads the following items are shown in the balance sheet of a company:**

**(i) Calls-in-Arrears; (ii) Commission received in advance; (iii) Debentures; (iv) Stores and spare parts; (v) Land and building; (vi) Forfeited shares account; (vii) Government securities; and (viii) Uncalled liability on partly paid shares.**

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major heads</i>	<i>Sub-head</i>
1.	Calls-in-arrears	Deduction under share cap.	Shareholders fund
2.	Commission received in Adv.	Other current liab.	Current liab.
3.	Debentures	Long-term borrow.	Non-current liab.
4.	Stores and spares parts	Inventories	Current assets
5.	Land & building	Tangible assets	Non-current assets
6.	Forfeited share A/c	Addition to share cap.	Share hol. fund
7.	Govt. securities	Non-current invest.	Non-current assets
8.	Uncalled liab. on partly paid share	Notes to Accounts	Commitments

**Q. 19. Under which heads the following are shown in a company's balance sheet:**

**(i) Public deposits; (ii) Office furniture; (iii) Prepaid Rent; (iv) Outstanding salaries; (v) Computer software; (vi) Interest accrued on investment; (vii) Bills discounted but not matured; and (viii) Live stock?**

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major heads</i>	<i>Sub-head</i>
1.	Public deposits	Long-term borrowing	Non-current liab.
2.	Office furniture	Tangible assets	Non-current assets
3.	Prepaid rent	Other current assets	Current assets
4.	Outstanding salaries	Other current liab.	Current liabilities
5.	Comp. software	Intangible assets	Non-current assets
6.	Interest accrued on invest.	Other current assets	Current assets
7.	Bill disc. but not matured	Contingent liabilities	Notes to account
8.	Live stock	Tangible assets	Non-current assets

**Q. 20. Name the major heads which the following items will be presented in the balance sheet of a company as per schedule III of the companies Act, 2013:**

(i) Loose tools; (ii) Unpaid dividend; (iii) Copyrights and patents (iv) Land and building.

Ans.

S.No.	Items	Major Head
(i)	Loose tools	Current assets
(ii)	Unpaid dividend	Current liabilities
(iii)	Copyrights and patents	Non-current assets
(iv)	Land and buildings	Non-current assets

**Q. 21. Identify the major under which the following items will be shown in the balance sheet of a company as per schedule III of companies Act, 2013:**

(i) Provision for tax; (ii) Loan payable on demand; (iii) Computer and related equipment (iv) Goods acquired for trading.

Ans.

S.No.	Items	Major Head
(i)	Provision for tax	Current liabilities
(ii)	Loan payable on demand	Current liabilities
(iii)	Computer and related equipment	Non-current assets
(iv)	Goods acquired for trading	Current assets

**Q. 22. How are the following items shown while preparing balance sheet of a company:**

(i) Surplus, i.e., balance in statement of profit and loss (Dr).;

(ii) Interest accrued and due to debentures;

(iii) Computer software under development;

(iv) Interest accrued on investment?

Ans.

S.No.	Items	Major heads	Sub-head
1.	Surplus in statement of P & L	Reserve & surplus	Sharehol. fund
2.	Interest accrued & due on Deb.	Other current liab.	Current liabilities
3.	Computer soft. under deve.	Intangible assets	Non-current assets
4.	Interest accrued on investment	Other current assets	Current assets

**Q. 23. Hero Ltd. has raised following long-term loans on 1st April, 2017 :**

10,000; 10% Debentures of ₹ 100 each redeemable in four equal yearly instalments beginning 1st July, 2018 10,00,000

11% bank loan from SBI repayable after 5 years 20,00,000

How will be the above items shown in the balance sheet of the company as at 31st March, 2018

Ans.

	<i>Particulars</i>	<i>Note No.</i>	<i>₹</i>
<b>I</b>	<b>Equity &amp; Liabilities</b>		
	1. Non-current liabilities		
	(a) Long-term borrowings	1	27,50,000
	2. Current liabilities		
	(b) Other current liabilities	2	5,70,000

	<b>Notes to Accounts</b>		
1.	Long-term borrowings		
	(a) Loan from SBI at 11%		20,00,000
	(b) 10,000;10% Deb. of ₹ 100 each	10,00,000	
	Less: 2500, 10% Deb. of ₹ 100 each		
	Repayable within 12 months	2,50,000	7,50,000
	Total		27,50,000
2.	Other current liabilities:		
	(a) 2500, 10% Deb. of ₹ 100 each repayable		
	within 12 months		2,50,000
	(b) Interest due but not paid on		
	(i) 10% Debentures	1,00,000	
	(ii) Loan from SBI	2,20,000	3,20,000
	Total		5,70,000

**Q.24. Prepare balance sheet of the company as per schedule III of the companies act, 2013;**

10% Debentures of ₹ 100 each	1,90,000
Stock-in-Trade (Inventories)	40,000
Goodwill	20,000
Provision for Tax	6,000
Totalling of balance sheet is not required	

**Ans. Balance Sheet**

	<i>Particulars</i>	<i>Note No.</i>	<i>₹</i>
<b>I</b>	<b>Equity &amp; Liabilities</b>		
	1. Non-current liabilities		
	(a) Long-term borrowings	1	1,90,000
	2. Current liabilities		
	(a) Short term-provision	2	6,000
<b>II.</b>	<b>Assets</b>		
	1. Non-current assets		
	(a) Fixed assets		
	(i) Intangible assets	3	20,000
	2. Current assets		
	(a) Inventories	4	40,000

### Notes to Accounts

1.	Long-term borrowings 1,900, 10% Debentures of ₹ 100 each	1,90,000
2.	Short-term provision Provision for tax	6,000
3.	Intangible assets Goodwill	20,000
4.	Inventories Stock-in-trade	40,000

**Q. 25. Prepare Balance Sheet of V.T. Ltd. as at 31st March, 2018 from the following information as per Schedule III, Part I the Companies Act, 2013:**

	₹		₹
<b>General Reserve</b>	<b>3,000</b>	<b>Fixed Assets:</b>	<b>9,000</b>
<b>8% Debentures</b>	<b>3,000</b>	<b>Tangible assets (cost)</b>	<b>2,500</b>
<b>Surplus, i.e., balance in Statement of</b>		<b>Current Liabilities</b>	<b>5,000</b>
<b>Profit and Loss (credit)</b>	<b>1,200</b>	<b>Share Capital</b>	
<b>Depreciation of Fixed assets</b>	<b>700</b>	<b>Current assets</b>	<b>6,400</b>

**Ans.**

### Balance Sheet

	Particulars	Note No.	₹
<b>I.</b>	<b>Equity &amp; Liabilities</b>		
	1. Shareholders' fund		
	(a) Share capital		5,000
	(b) Reserves & Surplus	1	4,200
	Sub-total		9,200
	2. Non-current Liabilities		
	(a) Long-term Borrowings	2	3,000
	3. Current liabilities		2,500
	Total Equity & Liabilities		14,700
<b>II.</b>	<b>Assets</b>		
	1. Non-current assets		
	(a) Fixed assets		
	(i) Tangible assets	3	8,300
	2. Current Assets		6,400
	Total Assets		17,400

**Notes of Accounts**

1.	Reserves & Surplus:		
	(a) General Reserve		3,000
	(b) Surplus as per statement of P & L A/c		1,200
	Total		4,200
2.	Long-term Borrowings:		
	8% Debentures		3,000
3.	Tangible assets		
	Cost	9,000	
	Less: Depreciation	700	8,300

**Q. 26. From the following information extracted from the books of Z Ltd., prepare a Balance Sheet of the Company as at 31st March, 2018 as per Schedule III of the Companies Act, 2013:**

	(₹ in '000)		(₹ in '000)
Long-term Borrowing	1,000	Fixed Assets (Tangible)	1,600
Trade Payables	60	Inventories	40
Share Capital	800	Trade Receivable	160
Reserves and Surplus	180	Cash and Cash Equivalents	240

**Ans. Balance Sheet of 'Z' Ltd.**

**(₹ in '000)**

	Particulars	Note No.	₹
I.	<b>Equity &amp; Liabilities</b>		
	1. Shareholders' fund		
	(a) Share capital		800
	(b) Reserve & Surplus		180
	Sub-total		980
	2. Non-current Liabilities		
	(a) Long-term Borrowings		1,000
	3. Current Liabilities:		
	(a) Trade payable		60
	Total equity & liabilities		2,040
II.	<b>Assets</b>		
	1. Non-current assets:		
	(a) Fixed assets		
	(i) Tangible assets		1,600
	2. Current assets		
	(a) Inventories		40
	(b) Trade Receivables		160
	(c) Cash & Cash Equivalents		240
	Sub-total		440
	Total Assets		2,040



**Q. 27. Prepare Balance Sheet of X Ltd, as at 31st March, 2016 from the following information:**

	₹		₹
Equity share capital	20,00,000	Surplus, i.e., Balance in statement of	
12% Preference Shared Capital	10,00,000	Profit and Loss (Cr.)	3,00,000
Fixed Assets (At cost)	46,60,000	Stock	6,00,000
Depreciation Written off till date	16,60,000	Sundry Debtors	8,00,000
Investments	4,00,000	Cash	1,50,000
Current Liabilities	8,00,000	Loans and Advances	50,000
12% Debentures	6,00,000	Provision for Taxation	2,00,000
		Workmen Compensation Reserve	1,00,000

**Ans. Balance Sheet 'x' Ltd. as at M. 31, 2016**

	Particulars	Note No.	₹
<b>I.</b>	<b>Equity &amp; Liabilities</b>		
	1. Shareholders' fund		
	(a) Share capital	1	30,00,000
	(b) Reserve & Surplus	2	4,00,000
	Sub-total		34,00,000
	2. Non-current liabilities		
	(a) Long-term Borrowings	3	6,00,000
	3. Current Liabilities		
	(a) Short-term provision	4	2,00,000
	(b) Other current liabilities		8,00,000
	Sub-total		10,00,000
	Total equity & liabilities		50,00,000
<b>II.</b>	<b>Assets</b>		
	1. Non-current		
	(a) Fixed assets	5	30,00,000
	(b) Non-current investment		4,00,000
	Sub-total		34,00,000
	2. Current assets		
	(a) Inventories	6	6,00,000
	(b) Trade Receivables	7	8,00,000
	(c) Cash & Cash Equivalents	8	1,50,000
	(d) Short-term loans & advance		50,000
	Sub-total		16,00,000
	Total-assets		50,00,000

**Notes of Accounts**

1.	Share capital		
	(a) Equity share capital		20,00,000
	(b) 12% preference share capital		10,00,000
	Total		30,00,000
2.	Reserves & Surplus		
	(a) Surplus as per stat. of P & L		3,00,000
	(b) Workmen compensation reserve		1,00,000
	Total		4,00,000
3.	Long-term borrowings		
	12% Debentures		6,00,000
4.	Short-term provisions		
	Provision for taxation		2,00,000
5.	Fixed assets		
	Cost	46,60,000	
	Less: Depreciation	(16,60,000)	30,00,000
6.	Inventories		
	Stock		6,00,000
7.	Trade receivables		
	Sundry debtors		8,00,000
8.	Cash & Cash equivalents		
	Cash		1,50,000

**Q. 28. Under which head following revenue items of a non-financial company will be classified or shown: (i) Sales; (ii) Revenue from services Rendered; (iii) Sale of Scrap; (iv) Interest Earned on Loans; (v) Profit on Sale of Investments.**

**Ans.**

S.No.	Rev. from operation	S.No.	Other Income
(i)	Sales	(iv)	Interest earned on loans
(ii)	Revenue from services rendered	(v)	Profit on sale of investments
(iii)	Sale of scrap		

**Q. 29. Under which head following revenue of a financial company will be classified or shown; (i) Gain (Profit) on sale of Building; (ii) Revenue from project consultancy rendered; (iii) Sale of scrap; (iv) interest earned on loans; (v) Profit on sale of investments?**

**Ans.**

S.No.	Rev. from operation	S.No.	Other Income
(iv)	Interest earned on loans	(i)	Pt. on sales of building
(v)	Gain (Profit) on sales of investments	(ii)	Rev. from project consultancy rendered
		(iii)	Sale of scrap

**Q.30.** Under which head following revenue items of financial company will be classified or shown; (i) Gain (Profit) on sale of fixed assets; (ii) Fee received for arranging loans; (iii) Interest on loan given; (iv) Gain (Profit) on sale of investments; (v) Sale of miscellaneous items.

**Ans.**

S.No.	Rev. from operation	S.No.	Other Income
(ii)	Fees received for arranging loans	(i)	Profit on sale of fixed assets.
(iii)	Interest on loans given	(ii)	Sale of miscellaneous items.
(iv)	Gain (profit) on sale of investment		

**Q.31.** Under which head following revenue items of non-financial company will be classified or shown: (i) Gain (Profit); on sale of fixed assets; (ii) Fee received for arranging loans; (iii) Interest on loans given; (iv) Gain (profit) on sale of investments; (v) Sale of miscellaneous items.

**Ans.**

S.No.	Rev. from operation	S.No.	Other Income
		(i)	Gain (Profit) on sale of fixed assets
		(ii)	Fee received for arranging loans
		(iii)	Interest on loans given
		(iv)	Gain (Profit) on sale of investments
		(v)	Sale of miscellaneous items

**Q.32.** Calculate cost of materials consumed from the following:

Opening inventory of materials ₹ 5,00,000; purchase of materials ₹ 25,00,000; and closing inventory of materials ₹ 4,00,000.

**Ans.** Cost of materials consumed

$$\begin{aligned}
 &= \text{opening stock} + \text{purchase} - \text{closing stock} \\
 &= ₹ 5,00,000 + ₹ 25,00,000 - ₹ 4,00,000 \\
 &= ₹ 26,00,000
 \end{aligned}$$

**Q.33.** Calculate cost of materials consumed from the following:

Opening inventory of Materials ₹ 2,50,000; Finished Goods ₹ 1,00,000; closing inventory of; Materials ₹ 2,25,000; Finished Goods ₹ 75,000; Raw materials purchased during the year ₹ 15,00,000.

**Ans.** Cost of materials consumed

$$\begin{aligned}
 &= (\text{opening stock} + \text{purchase} - \text{closing stock}) \text{ of material} \\
 &= ₹ (2,50,000 + 15,00,000 - 2,25,000) \\
 &= ₹ 15,25,000
 \end{aligned}$$

**Q. 34.** Calculate cost of materials consumed from the following:

Opening inventory of: Materials ₹ 3,50,000; Finished Goods ₹ 75,000; Stock-in-Trade ₹ 2,00,000; Closing inventory of; Materials ₹ 3,25,000; Finished Goods ₹ 85,000; Stock-in-Trade ₹ 1,50,000; Purchase during the year: Raw material ₹ 17,50,000 Stock-in-Trade ₹ 9,00,000.

**Ans. Cost of material consumed**

$$\begin{aligned} &= (\text{opening stock} + \text{purchase} - \text{closing stock}) \text{ of material} \\ &= ₹ (3,50,000 + 17,50,000 - 3,25,000) \\ &= ₹ 17,75,000 \end{aligned}$$

**Q. 35. From the following information calculate change in inventory of Finished Goods: Opening Inventory and Closing Inventory of finished Goods ₹ 2,00,000 and ₹ 1,75,000 respectively.**

**Ans. Change in inventories of finished goods**

$$\begin{aligned} &= (\text{opening} - \text{closing}) \text{ inventories of finished goods} \\ &= ₹ (2,00,000 - 1,75,000) \\ &= ₹ 25,000 \end{aligned}$$

**Q.36. From the following informations calculate change in inventory of finished goods: Opening Inventory and Closing inventory of Finished good ₹ 2,50,000 and ₹ 2,00,000 respectively.**

**Ans. Change in inventories of finished goods**

$$\begin{aligned} &= (\text{opening} - \text{closing}) \text{ inventories of finished goods} \\ &= ₹ (2,50,000 - 2,00,000) \\ &= ₹ 50,000 \end{aligned}$$

**Q. 37. From the following informations calculate change in inventory of work-in-progress: Opening and closing work-in-progress ₹ 1,00,000 and ₹ 1,15,000 respectively.**

**Ans. Change in inventory of work-in-progress (W.I.P.)**

$$\begin{aligned} &= (\text{opening} - \text{closing}) \text{ inventories of W.I.P.} \\ &= ₹ (1,00,000 - 1,15,000) \\ &= ₹ (15,000) \end{aligned}$$

**Q. 38. From the following information calculate change in inventory of work-in-progress: Opening and closing work-in-progress ₹ 1,50,000 and ₹ 1,45,000 respectively.**

**Ans. Change in inventory of W.I.P.**

$$\begin{aligned} &= (\text{opening} - \text{closing}) \text{ inventories of W.I.P.} \\ &= ₹ (1,50,000 - 1,45,000) \\ &= ₹ 50,000 \end{aligned}$$

**Q. 39. From the following information calculate change in inventory of stock-in-trade: Opening and closing stock-in-trade ₹ 5,00,000 and ₹ 4,50,000 respectively.**

**Ans. Change in inventory of stock-in-trade**

$$\begin{aligned} &= (\text{opening} - \text{closing}) \text{ inventories of stock-in-trade} \\ &= ₹ (5,00,000 - 4,50,000) \\ &= ₹ 50,000 \end{aligned}$$

**Q. 40. From the following information calculate change in inventory of stock-in-trade: Opening and closing stock-in-trade ₹ 5,00,000 and ₹ 4,00,000 respectively.**

**Ans. Change in inventory of stock in trade**

$$\begin{aligned} &= (\text{opening} - \text{closing}) \text{ inventories of stock-in-trade} \\ &= ₹ (5,00,000 - 4,00,000) \\ &= ₹ 1,00,000 \end{aligned}$$

**Q. 41.** From the following information of Hospitality Ltd. for the year ended 31st March, 2018, calculate amount that will be shown in the notes to accounts on change in inventories of finished goods, WIP and stock-in-trade:

Particulars	Opening inventory (₹)	Closing Inventory (₹)
Finished goods	5,00,000	5,50,000
Work-in-Progress	4,50,000	4,25,000
Stock-in-Trade	6,50,000	6,00,000

**Ans. Notes to Accounts**

S.No.	Particulars	Details	₹
1.	Change in inventories;		
	(a) Finished Goods;		
	Opening	5,00,000	
	Less: Closing	5,50,000	(50,000).
	(b) Work-in-Progress;		
	Opening	4,50,000	
	Less: closing	(4,25,000)	25,000
	(c) Stock-in-trade		
	Opening	6,50,000	
	Less: Closing	(6,00,000)	50,000
	Net change in inventories		25,000

**Q. 42.** From the following information of Manchur Ltd. for the year ended 31st March, 2018 calculate amount that will be shown in the Notes to accounts on change in inventories of finished goods, WIP and stock-in-trade.

Particulars	Opening inventory (₹)	Closing Inventory (₹)
Finished goods	15,00,000	12,50,000
Work-in-Progress	10,50,000	9,25,000
Stock-in-Trade	9,50,000	8,00,000

**Ans.**

S.No.	Particulars	Details	₹
1.	Change in inventories;		
	(a) Finished Goods;		
	Opening	15,00,000	
	Less: Closing	(12,50,000)	2,50,000
	(b) Work-in-Progress;		
	Opening	10,50,000	
	Less: closing	(9,25,000)	1,25,000
	(c) Stock-in-trade		
	Opening	9,50,000	
	Less: Closing	(8,00,000)	1,50,000
	Net change in inventories		5,25,000

**Q. 43. From the following information compute the amount to be shown in notes to accounts on employees-benefit expenses: Wages ₹ 5,40,000; ₹ 7,20,000; Bonus ₹ 1,05,000; staff welfare expenses ₹ 64,000 and business promotion expenses ₹ 50,000.**

**Ans. Notes of Accounts**

S.No.	Particulars	Details	₹
1.	Employee benefit expenses:		
	(a) Wages	5,40,000	
	(b) Salaries	7,20,000	
	(c) Bonus	1,05,000	
	(d) Staff welfare expenses	60,000	14,25,000
	Total		14,25,000

**Q. 44. From the following information prepare Notes to accounts on employees benefit expenses:**

**Wages ₹ 2,70,000; salaries ₹ 3,60,000; staff welfare expenses ₹ 60,000; printing and stationery expenses ₹ 20,000 and business promotion expenses ₹ 50,000.**

**Ans. Notes of Accounts**

S.No.	Particulars	₹
1.	Employees benefit expenses	
	(a) Wages	2,70,000
	(b) Salaries	3,60,000
	(c) Staff welfare expenses	60,000
	Total	6,90,000

**Q. 45. Out of the following identify the items that are shown in the notes to accounts on finance costs:**

- (i) Interest paid on borrowing from prince finance Ltd.;
- (ii) Interest paid on term loan to bank;
- (iii) Interest paid on public deposits;
- (iv) Loss on issue of debentures written off; and
- (v) Bank charges.

**Ans. Items of Finance Cost**

- (i) Interest paid on borrowing from prince finance Ltd.
- (ii) Interest paid on term loan to bank
- (iii) Interest paid on Public deposit.
- (iv) Loss on issues of debentures written off.

**Q. 46. From the following information prepare notes to accounts on finance costs: Interest paid to Bank ₹ 75,000; Interest on Dentures ₹ 58,000; Loss on issue of debentures written off ₹ 27,500; and commitment charges ₹ 15,000.**

**Ans. Notes of Accounts**

S.No.	Particulars	₹
1.	Finance Cost:	
	(a) Interest paid to bank	75,000
	(b) Interest on Debentures	58,000
	(c) Loss on issue of debentures-written off	27,500
	(d) Commitment charges	15,000
	Total	1,75,500

**Q. 47. From the following information of best marketing Ltd. for the year ended 31st March, 2018, prepare Notes to Accounts on Depreciation and amortisation:**

**Depreciation on: Building ₹ 15,500; Plant and Machinery ₹ 25,000; Computers ₹ 60,000; Goodwill written off ₹ 7,500; Patents written off ₹ 12,500.**

**Ans. Notes to Accounts**

S.No.	Particulars	Details ₹	₹
1.	Depreciation and Amortisation Expenses		
	(a) Depreciation on:		
	Building	15,500	
	Plant and Machinery	25,000	
	Computers	60,000	1,00,500
	(b) Amortisation Expenses:		
	Goodwill	7,500	
	Patents	12,500	20,000
	Total		1,20,500

**Q. 48. Identify which of the following items will be shown in the notes to accounts on other expenses (i) Salaries; (ii) Postages Expenses; (iii) Telephone and internet expenses; (iv) Rent for warehouse (v) Carriage inwards; (vi) Depreciation on computers; (vii) Computer software amortised; (viii) Computer Hiring charge; (ix) Audit fee; and (x) Bonus.**

**Ans. Items of 'Other Expenses'**

- (i) Postage expenses
- (ii) Telephone and internet exp.
- (iii) Rent for warehouse
- (iv) Carriage inwards
- (v) Computer hiring charges
- (vi) Audit fee

**Q. 49. Under which line item (majorhead) of the statement of profit and loss of non-financial company will the following be shown:**

**(i) Sale of goods; (ii) Revenue from service rendered; (iii) Interest earned; (iv) Gain (Profit) on sale of Assets; (v) Purchases of stock-in-trade; (vi) Salaries and wages; (vii) Interest paid to bank and (viii) Carriage outward.**

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major head</i>
(i)	Sale of Goods	Revenue from operation
(ii)	Revenue from service rendered	-do-
(iii)	Interest earned	Other income
(iv)	Gain (Profit) on sale of assets	-do-
(v)	Purchase of stock-in-trade	Purchase of stock-in-trade
(vi)	Salaries and wages	Employees benefit expenses
(vii)	interest paid to bank	Finance cost
(viii)	Carriage outward	Other expenses

**Q. 50. Under which line item (major head) of the statement of profit and loss of a financial company the following be shown:**

**(i) Interest on loans Given; (ii) Gain (profit) on sale of securities; (iii) Loss on sale of fixed assets (iv) Interest paid on deposits; (v) Depreciation on computers; (vi) Goodwill written off (vii) Commission paid for deposit mobilisation; and (viii) Repairs expenses.**

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major head</i>
(i)	Interest on loans given	revenue from operation
(ii)	Gain (Profit) on sale of securities	-do-
(iii)	Loss on sale of fixed assets	Other expenses
(iv)	Interest paid on deposits	Finance cost
(v)	Depreciation on computers	Depreciation and amortisation exp
(vi)	Goodwill written off	-do-
(vii)	Commission paid on deposit mobile.	Finance cost
(viii)	Repair expenses	Other expenses

**Q.51. Under which line item of the financial statements following will be shown:**

**(i) Sales; (ii) Loss on sales of vehicle; (iii) Debentures; (iv) Unamortised loss on issue of debenture (to be written off within 12 months of the date of balance sheet); (v) Encashable leave payable at the time of retirement; (vi) Tax reserve; (vii) Carriage on Purchases of stock-in-trade; and (viii) Telephone and Internet Expenses.**

**Ans.**

<i>S.No.</i>	<i>Items</i>	<i>Major head</i>
(i)	Sales	Revenue from operations
(ii)	Loss on sale of vehicle	Other expenses
(iii)	Debentures	Long-term Borrowings
(iv)	Unamortised loss on issue of deneture	Other non-current assets



(v)	Encashable leave payable at the Time of retirement	Long-term provisions
(vi)	Tax Reserve	Reserve & Surplus
(vii)	Carriage on purchase of stock-in-trade	Other expenses
(viii)	Telephone and internet expenses	-do-

**Q. 52. Financial statements are prepared following the consistent accounting concepts, principles, procedures and also the legal environment in which the business organisations operate. These statements are the sources of information on the basis of which conclusions are drawn about the profitability and financial position of a company so that their users can easily understand and use them in their economic decisions in a meaningful way.**

**From the above statement, identify any two values that a company should observe while preparing its financial statements. Also, state under which major headings and sub-headings the following items will be presented in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013—**

- (i) Capital Reserve;
- (ii) Calls-in-Advance;
- (iii) Loose Tools; and
- (iv) Bank Overdraft

**Ans. Values—(a) Following accounting principles and Concepts—Consistency**

**(b) Understandable for the user in a meaningful way—Transparency**

**Table 1.52**

Particulars	Major Heads	Sub-Heads
(i) Capital Reserve	Shareholders' Fund	Reserves and Surplus
(ii) Calls-in-Avances	Current Liabilities	Other Current Liabilities
(iii) Loose Tools	Current Assets	Inventories
(iv) Bank Overdraft	Current Liabilities	Short-term Borrowings

# 3

## Tools of Financial Statements Analysis-Comparative Statements & Common-Size Statement

### SOLVED PRACTICAL PROBLEMS

Q. 1. From the following balance sheet, prepare comparative balance sheet of D Ltd.:

	Particulars	2018 (₹)	2017 (₹)
I.	<b>Equity and Liabilities</b>		
	1. Shareholders funds		
	Share capital	3,50,000	3,00,000
	2. Non-current liabilities		
	Long-term borrowings	1,00,000	2,00,000
	3. Current liabilities		
	Trade payables	1,50,000	1,00,000
	<b>Total</b>	<b>6,00,000</b>	<b>6,00,000</b>
II.	<b>Assets</b>		
	1. Non-current assets		
	Fixed assets (Tangible)	4,00,000	3,00,000
	2. Current Assets		
	Trade receivables	2,00,000	3,00,000
	<b>Total</b>	<b>6,00,000</b>	<b>6,00,000</b>

Ans. Comparative balance sheet of D Ltd. as at March 31, 2018

	Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
I.	<b>Equity and Liabilities</b>					
	1. Shareholder's funds					
	Share capital		3,00,000	3,50,000	50,000	16.67%
	2. Non-current liabilities					
	Long-term Borrowings		2,00,000	1,00,000	(1,00,000)	(50%)
	3. Current liabilities					
	Trade payables		1,00,000	1,50,000	50,000	50%
	<b>Total</b>		<b>6,00,000</b>	<b>6,00,000</b>	<b>—</b>	<b>—</b>

<b>II. Assets</b>					
1. Non-current assets					
Fixed assets (tangible)	3,00,000	4,00,000	1,00,000	33.33%	
2. Current assets					
Trade receivables	3,00,000	2,00,000	(1,00,000)	(33.33%)	
Total	6,00,000	6,00,000	—	—	

**Q.2. Following are the balance sheets of Radha Ltd. as at 31st March, 2018 and 2018.**

	<b>Particulars</b>	<b>2018 (₹)</b>	<b>2017 (₹)</b>
<b>I. Equity and Liabilities</b>			
1. Shareholders funds			
(a) Share capital	15,00,000	10,00,000	
(b) Reserves and surplus	10,00,000	10,00,000	
2. Non-current liabilities			
Long term borrowings	8,00,000	2,00,000	
3. Current liabilities			
Trade payables	5,00,000	3,00,000	
Total	38,00,000	25,00,000	
<b>II. Assets</b>			
1. Non-current assets			
Fixed assets:			
(i) Tangible assets	25,00,000	15,00,000	
(ii) Intangible assets	5,00,000	5,00,000	
2. Current assets			
(a) Trade receivables	6,00,000	3,50,000	
(b) Cash and Cash equivalents	2,00,000	1,50,000	
Total	38,00,000	25,00,000	

**You are required to prepare comparative balance sheet on the basis of the information given in the above balance sheets.**

**Ans. Comparative balance sheet of Radha Ltd. as at March 31, 2018**

	<b>Particulars</b>	<b>Note No.</b>	<b>March 31, 2017</b>	<b>March 31, 2018</b>	<b>Absolute change</b>	<b>Percentage change</b>
<b>I. Equity and Liabilities</b>						
1. Shareholder's funds						
(a) Share capital		10,00,000	15,00,000	5,00,000	50%	
(b) Res. and surplus		10,00,000	10,00,000	—	—	
2. Non-current liabilities						
Long-term borrowings		2,00,000	8,00,000	6,00,000	300%	
3. Current liabilities						
Trade payables		3,00,000	5,00,000	2,00,000	66.67%	
Total		25,00,000	38,00,000	13,00,000	52%	

<b>II. Assets</b>					
1. Non-current assets					
Fixed assets					
(i) Tangible assets	15,00,000	25,00,000	10,00,000	66.67%	
(ii) Intangible assets	5,00,000	5,00,000	—	—	
2. Current assets					
(a) Trade receivables	3,50,000	6,00,000	2,50,000	71.43	
(b) Cash and Cash Equ.	1,50,000	2,00,000	50,000	33.33	
Total	25,00,000	38,00,000	13,00,000	52%	

**Q.3. The balance sheet of blue Ltd. as at 31st March, 2018 is given below:**

**Balance Sheet as at 31st March, 2018**

	Particulars	31st March 2018 (₹)	31st March 2017 (₹)
<b>I.</b>	<b>Equity and Liabilities</b>		
	1. Shareholders funds		
	(a) Share capital	3,26,000	2,44,000
	(b) Reserves and Surplus	1,00,000	1,00,000
	2. Non-current liabilities		
	Long term borrowings	6,96,000	4,38,000
	3. Current liabilities		
	Trade payable	2,98,000	78,000
	Total	14,20,000	8,60,000
<b>II.</b>	<b>Assets</b>		
	1. Fixed assets:		
	(a) Fixed assets:	5,68,000	4,30,000
	(b) Non-current investments	6,000	4,000
	2. Current assets		
	(a) Trade receivables	6,46,000	3,76,000
	(b) Cash and cash equivalents	2,00,000	50,000
	Total	14,20,000.	8,60,000

**Prepare comparative balance sheet showing percentage changes from 2017 to 2018.**

**Ans. Comparative balance of blue Ltd. as at March 31, 2018**

	Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
<b>I.</b>	<b>Equity and Liabilities</b>					
	1. Shareholder's funds					
	(a) Share capital		2,44,000	3,26,000	82,000	33.61
	(b) Reserves & surplus		1,00,000	1,00,000	—	—

2. Non-current liabilities				
Long-term borrowings	4,38,000	6,96,000	2,58,000	58.90
3. Current liabilities				
Trade payables	78,000	2,98,000	2,20,000	282.08
Total	8,60,000	14,20,000	5,60,000	65.12
<b>II. Assets</b>				
1. Non-current assets				
(a) Fixed assets	4,30,000	5,68,000	1,38,000	32.10
(b) Non-current invest.	4,000	6,000	2,000	50
2. Current assets				
(a) Trade receivables	3,76,000	6,46,000	2,70,000	71.81
(b) Cash & cash equi.	50,000	2,00,000	1,50,000	300
Total	8,60,000	14,20,000	5,60,000	65.12

**Q. 4. From the following balance sheet of Wye Ltd- as at 31st March, 2018 and 2018 :**

<i>Particulars</i>	<i>Note No.</i>	<i>31st March 2018 (₹)</i>	<i>31st March 2017 (₹)</i>
<b>I. Equity and liabilities</b>			
1. Shareholders funds			
(a) Share capital:			
(i) Equity share capital		4,00,000	4,00,000
(ii) Preference share capital		1,00,000	1,00,000
(b) Reserves and surplus		1,20,000	1,10,000
2. Non-current liabilities			
(a) Long-term borrowings	1	4,50,000	4,50,000
(b) Long-term provisions		50,000	1,00,000
3. Current liabilities			
(a) Trade payables (Creditors)		5,30,000	3,30,000
(b) Short-term provision		50,000	50,000
Total		17,00,000	15,40,000
<b>II. Assets</b>			
1. Non-current assets			
(a) Fixed assets (Tangible)		9,90,000	10,40,000
(b) Non-current investment		1,00,000	1,00,000
2. Current assets			
(a) Trade receivables		5,00,000	3,00,000
(b) Cash and cash equivalents	2	1,10,000	1,00,000
Total		17,00,000	15,40,000

**Notes to Accounts**

<i>Particulars</i>	<i>31st March 2018</i>	<i>31st March 2017</i>
<b>1. Long-term Borrowings</b>		
Bank loan	3,50,000	4,50,000
Debentures	1,00,000	—
	<b>4,50,000</b>	<b>4,50,000</b>
<b>2. Cash and cash equivalents</b>		
Bank	1,00,000	90,000
Cash in hand	10,000	10,000
	<b>1,10,000</b>	<b>1,00,000</b>

You are required to comment upon the changes in absolute figures from one period to another.

**Ans. Comparative balance sheet of Wye Ltd. as at March 31, 2018**

	<i>Particulars</i>	<i>Note No.</i>	<i>March 31, 2017</i>	<i>March 31, 2018</i>	<i>Absolute change</i>	<i>Percentage change</i>
<b>I.</b>	<b>Equity and Liabilities:</b>					
	1. Shareholder's funds					
	(a) Share capital					
	(i) Equity share C.		4,00,000	4,00,000	—	—
	(ii) Preference share C.		1,00,000	1,00,000	—	—
	(b) Reserves & surplus		1,10,000	1,20,000	10,000	9.09
	2. Non-current liabilities					
	(a) Long-term borro.					
	(i) Secured loans		4,50,000	4,50,000	—	—
	(b) Long-term provisions		1,00,000	50,000	(50,000)	(50)
	3. Current liabilities					
	(a) Trade Paya. (Creditors)		3,30,000	5,30,000	2,00,000	60.61
	(b) Short-term provisions		50,000	50,000	—	—
	Total		<b>15,40,000</b>	<b>17,00,000</b>	<b>1,60,000</b>	<b>10.39</b>
<b>II.</b>	<b>Assets</b>					
	1. Non-current assets					
	(a) Fixed assets (Tangible)		10,40,000	9,90,000	(50,000)	(4.81)
	(b) Non-current invest.		1,00,000	1,00,000	—	—
	2. Current assets					
	(a) Trade receivables		3,00,000	5,00,000	2,00,000	66.67
	(b) Cash & cash equi.		1,00,000	1,10,000	10,000	10
	Total		<b>15,40,000</b>	<b>17,00,000</b>	<b>1,60,000</b>	<b>10.39</b>

**Q. 5. From the following balance sheets of Royal Industries Ltd. as at 31st March, 2018 prepare comparative balance sheet:**

	Particulars	31st March 2018 (₹)	31st March 2017 (₹)
<b>I.</b>	<b>Equity and liabilities</b>		
	1. Shareholders funds		
	(a) Share capital:		
	Equity share capital	10,00,000	5,00,000
	(b) Reserves and surplus	1,00,000	1,00,000
	2. Non-current liabilities		
	Long-term borrowings	2,00,000	3,00,000
	3. Current liabilities		
	Trade payables	2,00,000	1,00,000
	<b>Total</b>	<b>15,00,000</b>	<b>10,00,000</b>
<b>II.</b>	<b>Assets</b>		
	1. Non-current assets		
	(a) Fixed assets:		
	(i) Tangible assets	8,00,000	4,00,000
	(ii) Intangible assets	2,00,000	2,00,000
	(b) Non-current investments	2,00,000	2,00,000
	2. Currents assets		
	(a) Inventories	2,50,000	1,50,000
	(b) Cash and cash equivalents	50,000	50,000
	<b>Total</b>	<b>15,00,000</b>	<b>10,00,000</b>

**Ans. Comparative balance sheet of Royal Ind. Ltd. as at March 31, 2017**

	Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
<b>I.</b>	<b>Equity and Liabilities</b>					
	1. Shareholder's funds					
	(a) Share capital					
	Equity share capital		5,00,000	10,00,000	5,00,000	100
	(b) Reserves & surplus		1,00,000	1,00,000	—	—
	2. Non-current liabilities					
	Long-term borrowings		3,00,000	2,00,000	(1,00,000)	(33.33)
	3. Current liabilities					
	Trade payables		1,00,000	2,00,000	1,00,000	100
	<b>Total</b>		<b>10,00,000</b>	<b>15,00,000</b>	<b>5,00,000</b>	<b>50</b>
<b>II.</b>	<b>Assets</b>					
	1. Non-current assets					
	(a) Fixed assets					
	(i) Tangible assets		4,00,000	8,00,000	4,00,000	100
	(ii) Intangible assets		2,00,000	2,00,000	—	—

(b) Non-current invest:	2,00,000	2,00,000	—	—
2. Current assets				
(a) Inventories	1,50,000	2,50,000	1,00,000	66.67
(b) Cash & cash equiv.	50,000	50,000	—	—
Total	10,00,000	15,00,000	5,00,000	50

**Q.6. From the following balance sheets as at 31st March, 2018 prepare comparative balance sheet:**

Particulars	31st March 2018 (₹)	31st March 2017 (₹)
<b>I. Equity and liabilities</b>		
1. Shareholders funds		
(a) Share capital:		
(i) Equity share capital	12,50,000	5,00,000
(ii) Preference share capital	2,50,000	2,50,000
(b) Reserves and surplus	3,00,000	4,50,000
2. Non-current liabilities		
Long-term borrowings		
12% Debentures	9,50,000	5,50,000
Loan from directors	2,50,000	2,00,000
3. Current liabilities		
(a) Short-term borrowings	3,50,000	1,75,000
(b) Trade payables	2,00,000	1,00,000
(c) Short-term provisions	50,000	25,000
Total	36,00,000	22,50,000
<b>II. Assets</b>		
1. Non-current assets		
Fixed assets (Tangible)	22,50,000	15,00,000
2. Current assets		
(a) Inventories	4,50,000	2,50,000
(b) Trade receivables	8,00,000	4,50,000
(c) Cash and cash equivalents	1,00,000	50,000
Total	36,00,000	22,50,000

**Ans. Comparative balance sheet as at March 31, 2018**

Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
<b>I. Equity and Liabilities</b>					
1. Shareholder's funds					
(a) Share capital					
(i) Equity share Cap.		5,00,000	12,50,000	7,50,000	150



	(ii) Preference share C.	2,50,000	2,50,000	—	—
	(b) Reserves & surplus	4,50,000	3,00,000	(1,50,000)	(33.33)
2.	Non-current liabilities				
	Long-term borrowings				
	12% Debenture (Secured)	5,50,000	9,50,000	4,00,000	72.73
	Loan from directors	2,00,000	2,50,000	50,000	25
3.	Current liabilities				
	(a) Short-term borrow.	1,75,000	3,50,000	1,75,000	100
	(b) Trade payables	1,00,000	2,00,000	1,00,000	100
	(c) Short-term provisions	25,000	50,000	25,000	100
	<b>Total</b>	<b>22,50,000</b>	<b>36,00,000</b>	<b>13,50,000</b>	<b>60</b>
II.	<b>Assets</b>				
1.	Non-current assets				
	Fixed assets (Tangible)	15,00,000	22,50,000	7,50,000	50
2.	Current assets				
	(a) Inventories	2,50,000	4,50,000	2,00,000	80
	(b) Trade receivables	4,50,000	8,00,000	3,50,000	77.77
	(c) Cash & cash equi.	50,000	1,00,000	50,000	100
	<b>Total</b>	<b>22,50,000</b>	<b>36,00,000</b>	<b>13,50,000</b>	<b>60</b>

**Q.7. From the following balance sheets of depth Ltd. as at 31st March, 2018 prepare comparative balance sheet.**

	<b>Particulars</b>	<b>Note. No.</b>	<b>31st March 2018 (₹)</b>	<b>31st March 2017 (₹)</b>
I.	<b>Equity and liabilities</b>			
1.	Shareholders funds			
	(a) Share capital		2,80,000	1,80,000
	(b) Reserves and surplus		1,00,000	1,00,000
2.	Non-current liabilities			
	Long-term borrowings		80,000	20,000
3.	Current liabilities			
	Trade payables		50,000	30,000
	<b>Total</b>		<b>5,10,000</b>	<b>3,30,000</b>
II.	<b>Assets</b>			
1.	Non-current assets			
	(a) Fixed assets:			
	(i) Tangible assets		2,80,000	1,80,000
	(ii) Intangible assets		50,000	30,000
	(b) Non-current investment		80,000	50,000
2.	Current assets			
	(a) Inventories		70,000	30,000
	(b) Cash and Cash equivalents		30,000	40,000
	<b>Total</b>		<b>5,10,000</b>	<b>3,30,000</b>

**Ans. Comparative balance sheet of Depth Ltd. as at March 31, 2018**

	<i>Particulars</i>	<i>Note No.</i>	<i>March 31, 2017</i>	<i>March 31, 2018</i>	<i>Absolute change</i>	<i>Percentage change</i>
<b>I.</b>	<b>Equity and Liabilities</b>					
	1. Shareholder's funds					
	(a) Share capital		1,80,000	2,80,000	1,00,000	55.55%
	(b) Reserve and surplus		1,00,000	1,00,000	—	—
	2. Non-current liabilities					
	Long-term borrowings		20,000	80,000	60,000	300%
	3. Current liabilities					
	Trade payables		30,000	50,000	20,000	66.67%
	Total		3,30,000	5,10,000	1,80,000	54.55%
<b>II.</b>	<b>Assets</b>					
	1. Non-current assets					
	(a) Fixed assets:					
	(i) Fixed assets		1,80,000	2,80,000	1,00,000	55.55%
	(ii) Intangible assets		30,000	50,000	20,000	66.67%
	(b) Non-current inves.		50,000	80,000	30,000	60%
	2. Current assets					
	(a) Inventories		30,000	70,000	40,000	133.33%
	(b) Cash & cash equi.		40,000	30,000	(10,000)	(25%)
	Total		3,30,000	5,10,000	1,80,000	54.55%

**Q.8. Following information is extracted from the statement of profit and loss of gold coin Ltd. for the year ended 31st March, 2015:**

<i>Particulars</i>	<i>31st March 2015</i>	<i>31st March 2014</i>
Revenue from operations	₹ 60,00,000	₹ 45,00,000
Employee benefit expenses	₹ 30,00,000	₹ 22,50,000
Depreciation	₹ 7,50,000	₹ 6,00,000
Other expenses	₹ 15,50,000	₹ 10,00,000
Tax rate	30%	30%

**Prepare comparative statement of profit and loss.**

**Ans. Comparative statement of Profit and Loss for the years ended 31st March 2014 and 2015.**

	Particulars	Note No.	For the years ended		Absolute change	% change
			31/3/14	31/3/15		
I.	Revenue from operation		45,00,000	60,00,000	15,00,000	33.33
II.	Expenses:					
	Employee b. expenses		22,50,000	30,00,000	7,50,000	33.33
	Depreciation		6,00,000	7,50,000	1,50,000	25.00
	Other expenses		10,00,000	15,50,000	5,50,000	55.00
	Total expenses		38,50,000	53,00,000	14,50,000	37.66
III.	Profit B.Tax (I-II)		6,50,000	7,00,000	50,000	7.69
IV.	Less: Tax (30%)		1,95,000	2,10,000	15,000	7.69
V.	Profit after tax (III-IV)		4,55,000	4,90,000	35,000	7.6

**Q.9. Prepare comparative statement of profit and loss from the following statement of Profit and Loss:**

	Particulars	31st March 2018 (₹)	31st March 2017 (₹)
I.	Income		
	Revenue from operation (Sales)	3,50,000	3,00,000
II.	Expenses		
	Purchases of stock-in-trade	2,10,000	1,80,000
	Change in Inventories of stock-in-trade	15,000	20,000
	Employees benefit expenses	17,500	15,000
	Other expenses	7,500	5,000
	Total	2,50,000	2,20,000
III.	Profit before tax (I-II)	1,00,000	80,000
IV.	Less: Tax	30,000	24,000
V.	Profit after tax (III-IV)	70,000	56,000

**Ans. Comparative statement of Profit and Loss as March 31, 2018**

	Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
I.	Income					
	Rev. operation (N. Sales)		3,00,000	3,50,000	50,000	16.67%
II.	Expenses					
	Purchase of stock-in-trade		1,80,000	2,10,000	30,000	16.67%
	Change in inventories		20,000	15,000	(5,000)	(25%)
	Employee benefit expenses		15,000	17,500	2,500	16.67%
	Other expenses		5,000	7,500	2,500	50%
	Total		2,20,000	2,50,000	30,000	13.64%
III.	Profit before tax (I-II)		80,000	1,00,000	20,000	25%
IV.	Less: Tax		(24,000)	(30,000)	(6,000)	25%
V.	Profit after tax (III-IV)		56,000	70,000	14,000	25%

**Q.10. Prepare comparative statement of profit and loss from the following statement of profit and loss:**

	<i>Particulars</i>	<i>31st March 2018 (₹)</i>	<i>31st March 2017 (₹)</i>
<b>I.</b>	<b>Income</b>		
	Revenue from operation (Sales)	3,00,000	2,50,000
<b>II.</b>	<b>Expenses</b>		
	Cost of materials consumed	1,20,000	1,00,000
	Change in Invent. of WIP and finished goods	(2,000)	5,000
	Employees benefit expenses (Wages)	30,000	25,000
	Other expenses	22,000	20,000
	<b>Total</b>	<b>1,70,000</b>	<b>1,50,000</b>
<b>III.</b>	<b>Net profit (I-III)</b>	<b>1,30,000</b>	<b>1,00,000</b>

**Ans. Comparative statement of profit and loss as at March 31, 2018**

	<i>Particulars</i>	<i>Note No.</i>	<i>March 31, 2017</i>	<i>March 31, 2018</i>	<i>Absolute change</i>	<i>Percentage change</i>
<b>I.</b>	<b>Income</b>					
	Rev. from opera. (N. Sales)		2,50,000	3,00,000	50,000	20%
<b>II.</b>	<b>Expenses</b>					
	Cost of material consumed		1,00,000	1,20,000	20,000	20%
	Change in inventories		5,000	(2,000)	(7,000)	(140%)
	Employees benefit expenses		25,000	30,000	5,000	20%
	Other expenses		20,000	22,000	2,000	10%
	<b>Total</b>		<b>1,50,000</b>	<b>1,70,000</b>	<b>20,000</b>	<b>13.33%</b>
<b>III.</b>	<b>Net profit (I-III)</b>		<b>1,00,000</b>	<b>1,30,000</b>	<b>30,000</b>	<b>30%</b>

**Q.11. From the following, prepare comparative statement of profit and loss:**

<i>Particulars</i>	<i>31st March 2018 (₹)</i>	<i>31st March 2017 (₹)</i>
Revenue from operation	30,00,000	20,00,000
Other income (% of revenue of operation)	12%	20%
Expenses (% of operating revenue)	70%	60%
Tax rate	40%	40%

**Ans. Comparative statement of profit and loss as at March 31, 2017**

	<i>Particulars</i>	<i>Note No.</i>	<i>March 31, 2017</i>	<i>March 31, 2018</i>	<i>Absolute change</i>	<i>Percentage change</i>
<b>I.</b>	<b>Income</b>					
	Revenue from operation		20,00,000	30,00,000	10,00,000	50%
	Other income		4,00,000	3,60,000	(40,000)	(10%)

	Total	24,00,000	33,50,000	9,60,000	40%
II.	Expenses				
	% of operating rev.	12,00,000	21,00,000	9,00,000	75%
III.	Profit before tax (I-III)	12,00,000	12,60,000	60,000	5%
IV.	Tax rate (40%)	(4,80,000)	(5,04,000)	(24,000)	(5%)
V.	Profit after tax (III-IV)	7,20,000	7,56,000	36,000	5%

**Q.12. From the following information, prepare comparative statement of profit and loss showing increase, decrease and percentage:**

Particulars	31st March 2018 (₹)	31st March 2017 (₹)
Cost of materials consumed	13,44,000	6,00,000
Rev. from opera. (% of materials cons.)	125%	200%
Other expenses (% operating revenue)	10%	10%
Tax rate	50%	50%

**Ans. Comparative statement of profit and loss as at March 31, 2017**

	Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
I.	Income					
	Revenue from operations		12,00,000	16,80,000	4,80,000	40%
II.	Expenses					
	Cost of materials consumed		6,00,000	13,44,000	7,44,000	124%
	Other expenses		1,20,000	1,68,000	48,000	40%
	Total		7,20,000	15,12,000	7,92,000	124%
III.	Profit before tax (I-III)		4,80,000	1,68,000	(3,12,000)	(65%)
IV.	Tax rate (50%)		2,40,000	84,000	(1,56,000)	(65%)
V.	Profit after tax (III-IV)		2,40,000	84,000	(1,56,000)	65%

**Q.13. From the following statement of profit and loss, prepare comparative statement of profit and loss**

	Particulars	Note. No.	31st March 2018 (₹)	31st March 2017 (₹)
I.	Income			
	Revenue from operation (Sales)		50,00,000	40,00,000
II.	Expenses			
	Purchase of stock-in-trade		34,00,000	28,50,000
	Change in inventories of stock-in-trade	1	1,00,000	1,50,000
	Employees benefit expenses		1,00,000	1,00,000
	Other expenses	2	2,00,000	1,50,000
	Total		38,00,000	32,50,000
III.	Net profit (I-III)		12,00,000	7,50,000

**Notes to Accounts**

<b>Particulars</b>		<b>(₹)</b>	<b>(₹)</b>
<b>1. Change in inventories of stock-in-trade</b>			
Opening inventory		2,00,000	3,50,000
Less: Closing inventory		1,00,000	2,00,000
		1,00,000	1,50,000
<b>2. Other expenses</b>			
Administration expenses		50,000	50,000
Selling and distribution expenses		1,50,000	1,00,000
		2,00,000	1,50,000

**Ans. Comparative statement of profit and loss as at March 31, 2018**

	<b>Particulars</b>	<b>Note No.</b>	<b>March 31, 2017</b>	<b>March 31, 2018</b>	<b>Absolute change</b>	<b>Percentage change</b>
<b>I. Income</b>						
	Revenue from oper. (sales)		40,00,000	50,00,000	10,00,000	25%
<b>II. Expenses</b>						
	Purchase of stock-in-trade		28,50,000	34,00,000	5,50,000	19.30%
	Change in inventories		1,50,000	1,00,000	(50,000)	(33.33%)
	Employees benefit exp.		1,00,000	1,00,000	—	—
	Other expenses		1,50,000	2,00,000	50,000	33.33%
	Total		32,50,000	38,00,000	5,50,000	16.92%
<b>III. Net profit (I-II)</b>			7,50,000	12,00,000	4,50,000	60%

**Q.14. Prepare comparative statement of profit and loss from the following statement of profit and loss:**

	<b>Particulars</b>	<b>Note. No.</b>	<b>31st March 2018 (₹)</b>	<b>31st March 2017 (₹)</b>
<b>I. Income</b>				
	Revenue from operation		50,00,000	40,00,000
	Other income		3,00,000	2,00,000
	Total		53,00,000	42,00,000
<b>II. Expenses</b>				
	Purchase of stock-in-trade		34,00,000	32,00,000
	Change in inventories of stock-in-trade		1,00,000	(2,00,000)
	Employees benefit expenses		1,00,000	1,00,000
	Finance cost		45,000	50,000
	Depreciation		30,000	25,000
	Other expenses	1	3,25,000	3,00,000
	Total		40,00,000	34,75,000
<b>III. Net profit (I-II)</b>			13,00,000	7,25,000

**Notes to Accounts**

<i>Particulars</i>	<i>31st March 2018 (₹)</i>	<i>31st March 2017 (₹)</i>
<b>1. Other expenses</b>		
Administration and general expenses	2,00,000	2,00,000
Miscellaneous expenses (Non-operative)	1,25,000	1,00,000
	<b>3,25,000</b>	<b>3,00,000</b>

**Ans. Comparative statement of profit and loss as at March 31, 2018**

<i>Particulars</i>	<i>Note No.</i>	<i>March 31, 2017</i>	<i>March 31, 2018</i>	<i>Absolute change</i>	<i>Percentage change</i>
<b>I. Income</b>					
Revenue from operations		40,00,000	50,00,000	10,00,000	25%
Other incomes		2,00,000	3,00,000	1,00,000	50%
<b>Total</b>		<b>42,00,000</b>	<b>53,00,000</b>	<b>11,00,000</b>	<b>26.19%</b>
<b>II. Expenses</b>					
Purchase of stock-in-trade		32,00,000	34,00,000	2,00,000	6.25%
Change in inventories		(2,00,000)	1,00,000	3,00,000	150%
Employee benefit expenses		1,00,000	1,00,000	—	—
Finance costs		50,000	45,000	(5,000)	(10%)
Depreciation		25,000	30,000	5,000	20%
Other expenses		3,00,000	3,25,000	25,000	8.33%
<b>Total</b>		<b>34,75,000</b>	<b>40,00,000</b>	<b>5,25,000</b>	<b>15.11%</b>
<b>III. Net profit (I-III)</b>		<b>7,25,000</b>	<b>13,00,000</b>	<b>5,75,000</b>	<b>79.31%</b>

**Q.15. Prepare comparative statement of profit and loss from the following information:**

<i>Particulars</i>	<i>31st March 2018 (₹)</i>	<i>31st March 2017 (₹)</i>
<b>Revenue from operation</b>	<b>37,50,000</b>	<b>25,00,000</b>
<b>Other income</b>	<b>4,50,000</b>	<b>5,00,000</b>
<b>Cost of materials consumed</b>	<b>22,50,000</b>	<b>12,50,000</b>
<b>Tax rate</b>	<b>50%</b>	<b>50%</b>

**Ans. Comparative statement & loss as at March 31, 2018**

<i>Particulars</i>	<i>Note No.</i>	<i>March 31, 2017</i>	<i>March 31, 2018</i>	<i>Absolute change</i>	<i>Percentage change</i>
<b>I. Income</b>					
Revenue from operations		25,00,000	37,50,000	12,50,000	50%
Other income		5,00,000	4,50,000	(50,000)	(10%)
<b>Total</b>		<b>30,00,000</b>	<b>42,00,000</b>	<b>12,00,000</b>	<b>40%</b>

II.	Expenses				
	Cost of materials consumed	12,50,000	22,50,000	10,00,000	80%
	Other expenses	2,50,000	3,75,000	1,25,000	50%
	Total	15,00,000	26,25,000	11,25,000	75%
III.	Profit before tax (I-III)	15,00,000	15,75,000	75,000	5%
IV.	Tax rate (50%)	(7,50,000)	(7,87,500)	(37,500)	5%
V.	Profit after tax (III-IV)	7,50,000	7,87,500	37,500	5%

**Q.16. From the following statement of profit and loss of Antriksh Ltd. for the year ended 31st March, 2012 and 2013, prepare a comparative statement of profit and loss:**

Particulars	Note No.	31st March 2013 (₹)	31st March 2012 (₹)
Revenue from operation		14,00,000	8,00,000
Other income		6,00,000	4,00,000
Expenses		17,00,000	11,00,000
Rate of income tax was 40%			

**Ans. Comparative statement of profit and loss as at March 31, 2013**

	Particulars	Note No.	Actual Values		Changes	
			March 31, 2012	March 31, 2013	Absolute	%
I.	Income					
	Revenue from opera.		8,00,000	14,00,000	6,00,000	75%
	Other income		4,00,000	6,00,000	2,00,000	50%
	Total revenue (I)		12,00,000	20,00,000	8,00,000	66.67%
II.	Expenses		11,00,000	17,00,000	6,00,000	54.54%
III.	Profit before tax (I-III)		1,00,000	3,00,000	2,00,000	200%
	Less: Tax		40,000	1,20,000	80,000	200%
	Profit after tax		60,000	1,80,000	1,20,000	200%

**Q.17. From the following statement of profit and loss, comparative statement of profit and loss:**

	Particulars	Note No.	31st March 2018 (₹)	31st March 2017 (₹)
1.	Income			
	Revenue from operation (sales)		20,00,000	17,50,000
	Other income		75,000	50,000
	Total		20,75,000	18,00,000
II.	Expenses			
	Purchases of stock-in-trade		11,60,000	10,00,000



Change in inventories of stock-in-trade		10,000	(25,000)
Employees benefit expenses	1	3,00,000	3,00,000
Depreciation		50,000	50,000
Other expenses	2	90,000	75,000
Total		16,10,000	14,00,000
III. Net profit (I-II)		4,65,000	4,00,000

**Notes to Accounts**

Particulars	31st March 2018 (₹)	31st March 2017 (₹)
1. Employees benefit expenses		
Wages	3,00,000	3,00,000
2. Other expenses		
Administration and general expense	70,000	50,000
Miscellaneous expenses	20,000	25,000
	90,000	75,000

**Ans. Comparative statement of profit & loss as at March 31, 2018**

Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
I. Income					
Revenue from opera. (Sales)		17,50,000	20,00,000	2,50,000	14.27%
Other income		50,000	75,000	25,000	50%
Total		18,00,000	20,75,000	2,75,000	15.25%
II. Expenses					
Purchase of stock-in-trade		10,00,000	11,60,000	1,60,000	16%
Change in inventories		(25,000)	10,000	35,000	140%
Employee benefit expenses		3,00,000	3,00,000	—	—
Depreciation		50,000	50,000	—	—
Other expenses		75,000	90,000	15,000	20%
Total		14,00,000	16,10,000	2,10,000	15%
III. Net Profit (I-II)		4,00,000	4,65,000	65,000	16.25%

**Q. 18. From the following Statement of Profit and Loss of Star Ltd., for the years ended 31st March, 2015 and 2016, prepare a Common-size statement—**

Particulars	Note No.	2015-16	2016-17
Revenue from Operations		₹ 25,00,000	₹ 20,00,000
Employee Benefit Expenses		₹ 10,00,000	₹ 7,00,000
Other Expenses		₹ 2,00,000	₹ 3,00,000
Tax rate		40%	40%

(Delhi 2017 C)

**Ans. Common-Size Statement of Profit & Loss  
for the Year ended-March 31, 2015-16 and 2014-15**

Particulars	Note No.	Absolute 2014-15	Amount 2015-16	% of Net sales	
				2014-15	2015-16
I. Revenue from operations		20,00,000	25,00,000	100	100
II. Expenses					
(a) Employee Benefit Expenses		7,00,000	10,00,000	35	40
(b) Other Expenses		3,00,000	2,00,000	50	8
Total Expenses		10,00,000	12,00,000	50	48
III. Profit Before Tax (I – II)		10,000	13,00,000	50	52
IV. Less Tax 40%		(4,00,000)	(5,20,000)	(20)	(20.8)
V. Profit After Tax (III – IV)		6,00,000	7,80,000	30	31.2

**Q.19. Prepare common-size statement of profit and loss from the following statement of profit and loss:**

Particulars	31st March 2018 (₹)
<b>I. Income</b>	
Revenue from operations (Net sales)	15,00,000
Other income	60,000
Total revenue	15,60,000
<b>II. Expenses</b>	
Purchases of stock-in-trade	7,50,000
Change in inventories of stock-in-trade	50,000
Other expenses	2,10,000
Total	10,10,000
<b>III. Net profit before tax (I-II)</b>	5,50,000

**Ans. Common-size statement of profit & loss as at March 31, 2018**

Particulars	Note No.	March 31, 2017	March 31, 2018	Absolute change	Percentage change
<b>I. Income</b>					
Revenue from operations		—	15,00,000	—	100%
Other income		—	60,000	—	4%
Total revenue		—	15,60,000	—	104
<b>II. Expenses</b>					
Purchase of stock-in-trade		—	7,50,000	—	50
Change in inventories		—	50,000	—	3.33

	Other expenses	—	2,10,000	—	14
	Total	—	10,00,000	—	67.33
III.	Net profit before tax (I-III)		5,50,000		36.67

Q.20. Convert the following statement of profit and loss into common-size statement of profit and loss:

	Particulars	Note No.	31st March 2018 (₹)	31st March 2017 (₹)
I.	Income			
	Revenue from operations	1	18,01,000	15,00,000
	Other income		20,000	15,000
	Total revenue		18,21,000	15,15,000
II.	Expenses			
	Purchase of stock-in-trade		10,22,500	9,00,000
	Change in inventories of stock-in-trade		(10,000)	10,000
	Employees benefit expenses		3,30,000	3,00,000
	Other expenses	2	2,00,000	1,70,000
	Total		15,42,500	13,80,000
III.	Net profit (I-II)		2,78,500	1,35,000

**Notes to Accounts**

	Particulars	₹	₹
1.	Revenue from operations		
	Sales	18,36,000	15,30,000
	Less: Returns	35,000	30,000
		18,01,000	15,00,000
2.	Other expenses		
	Administrative expenses	1,70,000	1,50,000
	Miscellaneous expenses (Non-operative)	30,000	20,000
		2,00,000	1,70,000

Ans. Common size income statement for the year ended March, 31, 2017 & 2018.

	Particulars	Absolute Amounts		Percentage of Revenue from operation (net sales)	
		31st March 2017 (₹)	31st March 2018 (₹)	31st March 2017 (%)	31st March 2018 (%)
I.	Income				
	Rev. from operations	15,00,000	18,01,000	99.00	98.9%
	Other income	15,000	20,000	1.00	1.1%
	Total revenue	15,15,000	18,21,000	100%	100%

<b>II. Expenses</b>				
Purch. of stock-in-trade	9,00,000	10,22,500	59.41%	56.15%
Chan. in inven. of S.-in-T	10,000	(10,000)	0.66%	(0.55%)
Employes benefits exp.	3,00,000	3,30,000	19.80%	18.12%
Other expenses	1,70,000	2,00,000	11.22%	10.98%
<b>Total</b>	<b>13,80,000</b>	<b>15,42,500</b>	<b>91.09%</b>	<b>84.71%</b>
<b>III. Net profit (I-III)</b>	<b>1,35,000</b>	<b>2,78,500</b>	<b>8.91%</b>	<b>15.29%</b>

**Q.21. Prepare common-size statement of profit and loss from the following statement of profit and loss:**

	<i>Particulars</i>	<i>Year I (₹)</i>	<i>Year II (₹)</i>
<b>I. Income</b>			
	Revenue from operation (Net sales)	14,00,000	16,00,000
<b>II. Expenses</b>			
	Purchases of stock-in-trade	9,00,000	10,00,000
	Changes in inventories of stock-in-trade	1,00,000	1,80,000
	Finance costs	80,000	80,000
	Other expenses	90,000	1,30,000
	<b>Total</b>	<b>11,70,000</b>	<b>13,90,000</b>
<b>III. Net profit before tax (I-II)</b>		<b>2,30,000</b>	<b>2,10,000</b>
<b>IV. Less: Tax</b>		<b>40,000</b>	<b>36,000</b>
<b>V. Net profit after tax</b>		<b>1,90,000</b>	<b>1,74,000</b>

**Ans. Common size income statement for the year ended Ist & IInd**

	<i>Particulars</i>	<i>Absolute Amounts</i>		<i>Percentage of Rev. from operation (net sales)</i>	
		<i>Year I (₹)</i>	<i>Year I (₹)</i>	<i>Year I (₹)</i>	<i>Year I (₹)</i>
<b>I. Income</b>					
	Rev. from opera. (Net sales)	14,00,000	16,00,000	100%	100%
<b>II. Expenses</b>					
	Purchase of stock-in-trade	9,00,000	10,00,000	64.29%	62.50%
	Chang. in inven. of stock-in-trade	1,00,000	1,80,000	7.14%	11.25%
	Finance cost	80,000	80,000	5.71%	5.00%
	Other expenses	90,000	1,30,000	6.43%	9.29%
	<b>Total</b>	<b>11,70,000</b>	<b>13,90,000</b>	<b>83.57%</b>	<b>88.04%</b>
<b>III. Net profit before tax (I-III)</b>		<b>2,30,000</b>	<b>2,10,000</b>	<b>16.43%</b>	<b>11.96%</b>
<b>IV. Less: Tax</b>		<b>40,000</b>	<b>36,000</b>	<b>2.86%</b>	<b>2.25%</b>
<b>V. Net profit after tax</b>		<b>1,90,000</b>	<b>1,74,000</b>	<b>13.57%</b>	<b>10.88%</b>

**Q.22. Prepare common-size balance sheet and comment on the financial position of X Ltd. and Y Ltd. The balance sheets of X Ltd. and Y Ltd. as at 31st March, 2018 are:**

	<i>Particulars</i>	<i>X Ltd. (₹)</i>	<i>Y Ltd. (₹)</i>
<b>I.</b>	<b>Equity and Liabilities</b>		
	1. Shareholder fund		
	(a) Share capital:	9,00,000	12,00,000
	(b) Reserves and surplus	4,00,000	3,50,000
	2. Current liabilities		
	Trade payables (Creditors)	2,00,000	2,50,000
	<b>Total</b>	<b>15,00,000</b>	<b>18,00,000</b>
<b>II.</b>	<b>Assets</b>		
	1. Non-current assets		
	Fixed assets (Tangible)	10,00,000	16,00,000
	2. Current assets		
	Trade receivables (Debtors)	5,00,000	2,00,000
	<b>Total</b>	<b>15,00,000</b>	<b>18,00,000</b>

**Ans. Common-size balance sheet as at March, 31, 2018**

	<i>Particulars</i>	<i>Absolute Amounts</i>		<i>Percentage of Revenue from operation (net sales)</i>	
		<i>x Ltd. (₹)</i>	<i>y Ltd. (₹)</i>	<i>x Ltd. (₹)</i>	<i>y Ltd. (₹)</i>
<b>I.</b>	<b>Equity &amp; Liabilities</b>				
	1. Shareholder's funds				
	(a) Share capital	9,00,000	12,00,000	60%	66.67%
	(b) Reserve and surplus	4,00,000	3,50,000	26.67%	19.44%
	2. Current liabilities				
	Trade payables (Creditors)	2,00,000	2,50,000	13.33%	13.89%
	<b>Total</b>	<b>15,00,000</b>	<b>18,00,000</b>	<b>100%</b>	<b>100%</b>
<b>II.</b>	<b>Assets</b>				
	1. Non-current assets				
	Fixed assets (tangible)	10,00,000	16,00,000	66.67%	88.89%
	2. Current assets				
	Trade receivable (Debtors)	5,00,000	2,00,000	33.33%	11.11%
	<b>Total</b>	<b>15,00,000</b>	<b>18,00,000</b>	<b>100%</b>	<b>100%</b>

**Q.23. Prepare common-size balance sheet of X Ltd., as at 31st March, 2018 and 2017.**

	<i>Particulars</i>	<i>Note No.</i>	<i>31st March 2018 (₹)</i>	<i>31st March 2017 (₹)</i>
<b>I.</b>	<b>Equity and Liabilities</b>			
	1. Shareholders funds			
	(a) Share capital:			
	(i) Equity share capital		6,00,000	8,00,000
	(ii) Preference share capital		2,00,000	4,00,000
	(b) Reserves and surplus		2,00,000	2,00,000
	2. Non-current liabilities			
	Long-term borrowings (Debentures)		2,00,000	2,00,000
	3. Current liabilities			
	(a) Short-term borrowings		90,000	1,50,000
	(b) Trade payables (Creditors)		1,00,000	1,25,000
	(c) Short-term provisions		20,000	25,000
	Total		14,10,000	19,00,000
<b>II.</b>	<b>Assets</b>			
	1. Non-current assets			
	(a) Fixed assets:			
	(i) Tangible assets		6,00,000	8,00,000
	(ii) Intangible assets		2,00,000	2,00,000
	(b) Non-current investments		2,00,000	2,00,000
	2. Current assets			
	(a) Inventories		1,75,000	2,50,000
	(b) Trade receivables		1,45,000	2,75,000
	(c) Cash and cash equivalents		90,000	1,75,000
	Total		14,10,000	19,00,000

**Ans. Common-size balance sheet as at March 31, 2017 and 2018:**

	<i>Particulars</i>	<i>Absolute Amounts</i>		<i>Percentage balance sheet total</i>	
		<i>31st March</i>	<i>31st March</i>	<i>31st March</i>	<i>31st March</i>
		<i>2017 (₹)</i>	<i>2018 (₹)</i>	<i>2017 (₹)</i>	<i>2018 (₹)</i>
<b>I.</b>	<b>Equity &amp; Liabilities</b>				
	1. Shareholder's funds				
	(a) Share capital				
	(i) Equity share capital	8,00,000	6,00,000	42.10%	42.55%
	(ii) Preference share capital	4,00,000	2,00,000	21.05%	14.18%
	(b) Reserve and surplus	2,00,000	2,00,000	10.53%	14.18%

<b>2. Non-current liabilities</b>				
Long-term borrowings (Deb.)	2,00,000	2,00,000	10.53%	14.18%
<b>3. Current liabilities</b>				
(a) Short-term borrowing	1,50,000	90,000	7.89%	6.38%
(b) Trade payables (Cred.)	1,25,000	1,00,000	6.85%	7.09%
(c) Short-term provisions	25,000	20,000	1.32%	1.44%
Total	19,00,000	14,10,000	100%	100%
<b>II. Assets</b>				
<b>1. Non-current assets</b>				
(a) Fixed assets				
(i) Tangible	8,00,000	6,00,000	42.10%	42.55%
(ii) Intangible	2,00,000	2,00,000	10.53%	14.18%
(b) Non-current investment	2,00,000	2,00,000	10.53%	14.18%
<b>2. Current assets</b>				
(a) Inventories	2,50,000	1,75,000	13.16%	12.41%
(b) Trade receivables	2,75,000	1,45,000	14.47%	10.28%
(c) Cash and cash equiv.	1,75,000	90,000	9.21%	6.40%
Total	19,00,000	14,10,000	100%	100%

# 4

## Accounting Ratios

### SOLVED PRACTICAL PROBLEMS

Q.1. From the following compute Current Ratio

	(₹)		(₹)
Trade Receivable (Sundry Debtors)	1,80,000	Bills Payable	20,000
Prepaid Expenses	40,000	Sundry Creditors	1,00,000
Cash and Cash Equivalents	50,000	Debentures	4,00,000
Marketable Securities	50,000	Inventories	80,000
Land and Building	5,00,000	Expenses Payable	80,000

$$\begin{aligned}
 \text{Ans. Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\
 &= \frac{1,80,000 + 40,000 + 50,000 + 50,000 + 80,000}{20,000 + 1,00,000 + 80,000} \\
 &= \frac{4,00,000}{2,00,000} = 2:1
 \end{aligned}$$

Q.2. Calculate Current Ratio from the following information:

Particulars	(₹)	Particulars	(₹)
Total Assets	5,00,000	Non-current Liabilities	1,30,000
Fixed Tangible Assets	2,50,000	Non-current Investments	1,50,000
Shareholder's Funds	3,20,000		

$$\begin{aligned}
 \text{Ans. Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\
 &= \frac{1,00,000}{50,000} = 2:1
 \end{aligned}$$

$$\begin{aligned}
 \text{Here, Current Assets} &= \text{Total Assets} - (\text{Fixed Assets} + \text{Non-Current Investment}) \\
 &= 5,00,000 - (\text{₹ } 2,50,000 + \text{₹ } 1,50,000) \\
 &= \text{₹ } 5,00,000 - \text{₹ } 4,00,000 \\
 &= \text{₹ } 1,00,000
 \end{aligned}$$



$$\begin{aligned}
 \text{Current Liabilities} &= \text{Total Assets} - [\text{Shareholder's Fund} + \text{Non-Current Liab.}] \\
 &= ₹ 5,00,000 - [3,20,000 + 1,30,000] \\
 &= ₹ 5,00,000 - 4,50,000 \\
 &= ₹ 50,000
 \end{aligned}$$

**Q.3. Current Ratio is 2.5, Working Capital is ₹1,50,000. Calculate the amount of Current Assets and Current Liabilities.**

**Ans.** Given C. Ratio = 2.5 W.Capital = ₹ 1,50,000

$$\text{C. Ratio} = \text{C. Assets} / \text{C. Liabilities}$$

$$2.5 = \frac{\text{C. Liabilities} + \text{Work. Capital}}{\text{C. Liabilities}}$$

$$2.5 = \frac{\text{C. Liabilities} + 1,50,000}{\text{C. Liabilities}}$$

$$2.5 \text{ C. Liabilities} - \text{C. Liabilities} = 1,50,000$$

$$\begin{aligned}
 \text{So,} \quad \text{C. Liabilities} &= ₹ 1,50,000 / 1.5 \\
 &= ₹ 1,00,000
 \end{aligned}$$

$$\begin{aligned}
 \text{and} \quad \text{C. Assets} &= \text{C. Liabilities} + \text{W. Capital} \\
 &= ₹ [1,00,000 + 1,50,000]
 \end{aligned}$$

**Q.4. Working Capital is ₹9,00,000; Trade Payable ₹90,000; and Other Current Liabilities are ₹2,10,000, Calculate Current Ratio.**

$$\begin{aligned}
 \text{Ans.} \quad \text{Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\
 &= \frac{₹ 12,00,000}{₹ 3,00,000} = 4:1
 \end{aligned}$$

$$\begin{aligned}
 \text{Here,} \quad \text{Current Assets} &= \text{Working Capital} + \text{T/Payables} + \text{Other Current Liabilities} \\
 &= ₹ 9,00,000 + 90,000 + 2,10,000 \\
 &= ₹ 12,00,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Current Liabilities} &= \text{T/Payables} + \text{Other Current Liabilities} \\
 &= ₹ 90,000 + 2,10,000 \\
 &= ₹ 3,00,000
 \end{aligned}$$

**Q.5. Working Capital ₹1,80,000; Total Debts ₹3,90,000; Long-Term Debts ₹3,00,000. Calculate Current Ratio.**

$$\begin{aligned}
 \text{Ans.} \quad \text{Current Liabilities} &= \text{Total Debts} - \text{Long Term Debts} \\
 &= 3,90,000 - 3,00,000 = ₹ 90,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Current Assets} &= \text{Current Liabilities} + \text{Working Capital} \\
 \text{or,} \quad \text{Current Assets} &= 90,000 + 1,80,000 = ₹ 2,70,000
 \end{aligned}$$

$$\text{Thus,} \quad \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2,70,000}{90,000} = 3:1$$

**Q.6. Current Assets are ₹7,50,000 and Working Capital is ₹2,50,000. Calculate Current Ratio.**

$$\begin{aligned}\text{Ans. Current Ratio} &= \frac{\text{Current Assets}}{\text{Current Liabilities}} \\ &= \frac{₹7,50,000}{₹5,00,000} \\ &= 1.5 : 1\end{aligned}$$

$$\begin{aligned}\text{Here, Current Liabilities} &= \text{Current Assets} - \text{Working Capital} \\ &= ₹7,50,000 - ₹2,50,000 \\ &= ₹5,00,000\end{aligned}$$

**Q. 7. Trade Payables ₹50,000, Working Capital ₹9,00,000, Current Liabilities ₹3,00,000. Calculate Current Ratio.**

$$\begin{aligned}\text{Ans. Given T. Payables} &= ₹50,000, \text{ W. Capital} = ₹9,00,000 \\ \text{C. Liabilities} &= ₹3,00,000, \text{ C. Ratio} = ?\end{aligned}$$

$$\begin{aligned}\text{C. Ratio} &= \frac{\text{C.Assets}}{\text{C.Liabilities}} \\ &= \frac{\text{C. Liabilities} + \text{W. Capital}}{\text{C. Liabilities}} \\ &= \frac{3,00,000 + 9,00,000}{3,00,000} \\ &= ₹ \frac{12,00,000}{3,00,000}\end{aligned}$$

$$\text{C. Ratio} = 4 : 1$$

**Q. 8. A company had Current Assets of ₹4,50,000 and Current Liabilities of ₹2,00,000. Afterwards it purchased goods for ₹30,000 on credit. Calculate Current Ratio after the purchase.**

**Ans. Current Ratio after purchase**

$$\begin{aligned}&= \frac{\text{Current Assets} + \text{Goods purchased on credit}}{\text{Current Liabilities} + \text{Creditors for goods purchased}} \\ &= ₹ \frac{4,50,000 + 30,000}{2,00,000 + 30,000} = ₹ \frac{4,80,000}{2,30,000} \\ &= 2.08 : 1\end{aligned}$$

**Q. 9. Current Liabilities of a company were ₹1,70,000 and its Current Ratio was 2 : 1. It paid ₹30,000 to a Creditor. Calculate Current Ratio after payment.**

**Ans. Current Ratio after payment**

$$\begin{aligned}&= \frac{\text{Current Assets} - \text{Paid to Creditor}}{\text{Current Liabilities} - \text{Decrease in Creditor}}\end{aligned}$$

$$= \frac{3,50,000 - 30,000}{1,75,000 - 30,000}$$

$$= 2.206 : 1 \text{ OR } 2.21 : 1$$

Here,  $\text{Current Assets} = \text{Old Current Liabilities} \times \text{Current Ratio}$   
 $= 1,75,000 \times 2 = ₹ 3,50,000$

**Q. 10. Ratio of Current Assets (₹ 3,00,000) to Current Liabilities (₹ 2,00,000) is 1.5 : 1. The accountant of the firm is interested in maintaining a Current Ratio of 2 : 1 by paying off a part of the Current Liabilities. Compute amount of the Current Liabilities that should be paid so that the Current Ratio at the level of 2 : 1 may be maintained.**

**Ans.** Let the amount of Current Liabilities to be paid = X

Then, Now Current Assets = ₹ 3,00,000 - X and New Current Liabilities  
 = ₹ 2,00,000 - X.

$$\text{Hence, New Current Ratio} = \frac{3,00,000 - X}{2,00,000 - X} = \frac{2}{1}$$

$$\text{or } 3,00,000 - X = 4,00,000 - 2X$$

$$\text{or } 2X - X = 4,00,000 - 3,00,000$$

Thus, the required amount = X = ₹ 1,00,000

**Q. 11. Ratio of Current Assets (₹ 8,75,000) to Current Liabilities (₹ 3,50,000) is 2.5 : 1. The firm wants to maintain Current Ratio of 2 : 1 by purchasing goods on credit. Compute amount of goods that should be purchased on credit.**

**Ans.** Let the Current Asset purchased = ₹ x

$$\text{Then, Current Ratio} = \frac{\text{Old Current Assets} + \text{Current Assets purchase}}{\text{Old Current Liabilities} + \text{Creditors for Current Assets}}$$

$$\frac{₹ 8,75,000 + x}{3,50,000 + x} = \frac{2}{1}$$

$$\text{So, } 2(3,50,000 + x) = 8,75,000 + x$$

$$2x - x = 8,75,000 - (2 \times 3,50,000)$$

$$x = ₹ 1,75,000$$

**Q. 12. A firm had Current Assets of ₹ 5,00,000. It paid Current Liabilities of ₹ 1,00,000 and the Current Ratio became 2 : 1. Determine Current Liabilities and Working Capital before and after the payment made.**

**Ans.** Let the Current Liabilities before payment = ₹ x

$$\text{Then, Current Ratio} = \frac{\text{Old Current Assets} - \text{Payment}}{\text{Old Current Liabilities} - \text{Payment}} = \frac{2}{1}$$

$$\Rightarrow \frac{₹ 5,00,000 - 1,00,000}{x - 1,00,000} = \frac{2}{1}$$

$$\begin{aligned}
2(x - 1,00,000) &= 4,00,000 \\
2x - 2,00,000 &= 4,00,000 \\
2x &= 4,00,000 + 2,00,000 \\
x &= \frac{6,00,000}{2} = 3,00,000
\end{aligned}$$

So, Current Liab before payment = ₹ 3,00,000  
after payment = ₹ 3,00,000 – 1,00,000  
= ₹ 2,00,000

Current Assets before payment = ₹ 5,00,000 (Given)  
after payment = ₹ 5,00,000 – 1,00,000  
= ₹ 4,00,000

Working capital before payment = ₹ 5,00,000 – 3,00,000  
= ₹ 2,00,000  
after payment = ₹ 4,00,000 – 2,00,000  
= ₹ 2,00,000

**Q. 13. State giving reason, whether the Current Ratio will improve or decline or will have no effect in each of the following transactions if Current Ratio is 2 : 1.**

- (a) Cash paid to Trade Payables.
- (b) Bills Payable discharged.
- (c) Bills Receivable endorsed to a creditor.
- (d) Payment of final Dividend already declared
- (e) Purchase of Stock-in-Trade on credit
- (f) Bills Receivable endorsed to a Credit dishonored
- (g) Purchase of Stock-in-Trade for cash
- (h) Sale of Fixed Assets (Book Value of ₹ 50,000) for ₹ 45,000.
- (i) Sale of Fixed Assets (Book Value of ₹ 50,000) for ₹ 60,000.

**Ans. Statement showing effect on Current Ratio of 2 : 1.**

<i>Transaction</i>	<i>Effect</i>	<i>Reason</i>
(a)	Improve	Both C. Assets and C. Liability will decrease by same amount.
(b)	Improve	Both C. Assets and C. Liability will decrease by same amount.
(c)	Improve	Both C. Assets and C. Liability will decrease by same amount.
(d)	Improve	Both C. Assets and C. Liability will decrease by same amount.
(e)	Decline	Both C. Assets and C. Liability will Increase by same amount.
(f)	Decline	Both C. Assets and C. Liability will Increase by same amount.

(g)	No effect	It is a conversion of a C. Assets into the another C. Asset.
(h)	Improve	Only cash (C. Asset) will increase.
(i)	Improve	Only Cash (C. Asset) will increase.

**Q. 14. State, giving reasons which of the following transactions would improve, reduce or not change the Current Ratio, if Current Ratio of a company is (i) 1 : 1; or (ii) 0.8 : 1.**

- (a) Cash paid to Trade Payables
- (b) Purchase of Stock-in-Trade on credit
- (c) Purchase of Stock-in-Trade for cash
- (d) Payment of Dividend
- (e) Bills Payable discharged
- (f) Bills Receivable endorsed to a Creditor
- (g) Bills Receivable endorsed to a Creditor dishonoured

**Ans. (i) Statement Showing Effect on Current Ratio of 1 : 1.**

<i>Case</i>	<i>Effect</i>	<i>Reason</i>
(a)	No change	Both C. Assets and C. Liability will decrease by same amount.
(b)	No change	Both C. Assets and C. Liability will increase by same amount.
(c)	No change	It is a conversion of a C. Asset into another C. Asset.
(d)	No change	Both C. Assets and C. Liability will decrease by same amount.
(e)	No change	Both C. Assets and C. Liability will decrease by same amount.
(f)	No change	Both C. Assets and C. Liability will decrease by same amount.
(g)	No change	Both C. Assets and C. Liability will increase by same amount.

**(ii) Statement Showing Effect on Current Ratio 0.8 : 1**

<i>Case</i>	<i>Effect</i>	<i>Reason</i>
(a)	Reduce	Both C. Asset and C. Liability will decrease by same amount.
(b)	Improve	Both C. Asset and C. Liability will increase by same amount.
(c)	No change	It is a conversion of a C. Asset into another C. Asset.
(d)	Reduce	Both C. Assets and C. Liability will decrease by same amount.
(e)	Reduce	Both C. Assets and C. Liability will decrease by same amount.
(f)	Reduce	Both C. Assets and C. Liability will decrease by same amount.
(g)	Improve	Both C. Assets and C. Liability will increase by same amount.

**Q. 15. From the following information, calculate liquid Ratio:**

<i>Particulars</i>	<i>(₹)</i>	<i>Particulars</i>	<i>(₹)</i>
Current Assets	2,00,000	Trade Receivables	1,10,000
Inventories	50,000	Current Liabilities	70,000
Prepaid Expenses	10,000		

**Ans.**

$$\text{Liquid Ratio} = \frac{\text{₹1,40,000}}{70,000} = 2:1$$

Here,  $\text{Liquid Assets} = \text{Current Assets} - \text{Inventories} - \text{p/p exp.}$   
 $= \text{₹2,00,000} - 50,000 - 10,000$   
 $= \text{₹1,40,000}$

**Q. 16. Quick Assets ₹1,50,000; Inventory (Stock) ₹40,000; Prepaid Expenses ₹10,000; Working Capital ₹1,20,000. Calculate Current Ratio.**

**Ans.**  $\text{Current Assets} = \text{Quick Assets} + \text{Stock} + \text{Prepaid Expenses}$   
 $= 1,50,000 + 40,000 + 10,000 = \text{₹2,00,000}$   
 $\text{Current Liabilities} = \text{Current Assets} - \text{Working Capital}$   
 $= 2,00,000 - 1,20,000 = \text{₹80,000}$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2,00,000}{80,000} = 2.5:1$$

**Q. 17. Current Assets ₹3,00,000; Inventories ₹60,000; Working Capital ₹2,52,000. Calculate Quick Ratio.**

**Ans.**  $\text{Quick Assets} = \text{Current Assets} - \text{Inventories}$   
 $= \text{₹3,00,000} - 60,000 = \text{₹2,40,000}$   
 $\text{Current Liabilities} = \text{Current Assets} - \text{Working Capital}$   
 $= \text{₹3,00,000} - 2,52,000 = \text{₹48,000}$

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{2,40,000}{48,000} = 5:1$$

**Q. 18. Working Capital ₹3,60,000; Total Debts ₹7,80,000; Long term ₹6,00,000; Inventories ₹1,80,000. Calculate Liquid Ratio.**

**Ans.**  $\text{Current Liabilities} = \text{Total Debts} - \text{Long Terms Debts}$   
 $= 7,80,000 - 6,00,000 = 1,80,000$   
 $\text{Current Assets} = \text{Current Liabilities} + \text{Working Capital}$   
 $= \text{₹1,80,000} + \text{₹3,60,000} = \text{₹5,40,000}$   
 $\text{Liquid Assets} = \text{Current Assets} - \text{Inventories}$   
 $= 5,40,000 - \text{₹1,80,000} = \text{₹3,60,000}$

$$\text{Liquid Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$
$$= \frac{3,60,000}{1,80,000} = 2:1$$

**Q. 19. Current Liabilities of a company are ₹6,00,000. Its Current Ratio is 3:1 and Liquid Ratio is 1:1. Calculate value of Inventory.**

Ans.  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$

or  $\frac{3}{1} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$

or  $\text{Current Assets} = 3 \times \text{Current Liabilities}$   
 $= 3 \times 6,00,000 = ₹ 18,00,000$

Now,  $\text{Liquid Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{1}{1}$

or  $\text{Liquid Assets} = \text{Current Liabilities} = ₹ 6,00,000$   
 $\text{Stock} = \text{Current Assets} - \text{Liquid Assets}$   
 $= ₹ 18,00,000 - 6,00,000 = ₹ 12,00,000$

**Q. 20. X Ltd. has a Current Ratio of 3.5 : 1 and Quick Ratio of 2 : 1. If the Inventories is ₹ 24,000; calculate total Current Liabilities and Current Assets.**

Ans. Given,  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3.5}{1}$

and  $\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{2}{1}$

Then,  $\text{Current Assets} = 3.5 \times \text{Current Liabilities}$   
and  $\text{Quick Assets} = 2 \times \text{Current Liabilities}$   
Now,  $\text{Current Assets} - \text{Quick Assets} = \text{Stock}$   
or  $3.5 \text{ Current Liabilities} - 2 \text{ Current Liabilities} = ₹ 24,000$   
 $1.5 \text{ Current Liabilities} = ₹ 24,000$   
 $\text{Current Liabilities} = 24,000 / 1.5 = ₹ 16,000$   
 $\text{Current Assets} = 3.5 \text{ Current Liabilities}$   
 $\text{Current Assets} = 3.5 \times 16,000 = ₹ 56,000$

**Q. 21. X Ltd. has Current Ratio of 4.5 : 1 and a Quick Ratio of 3 : 1. If its inventory is ₹ 36,000, find out its total Current Assets and total Current Liabilities.**

Ans. Given,  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$   
 $= \frac{4.5}{1}$

or  $\text{Current Assets} = 4.5 \text{ Current Liabilities}$

and  $\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{3}{1}$

or  $\text{Liquid Assets} = 3 \text{ Current Liabilities}$   
Now,  $\text{Current Assets} - \text{Liquid Assets} = \text{Stock}$   
Now,  $\text{Current Assets} - \text{Liquid Assets} = \text{Stock}$

or  $4.5 \text{ Current Liabilities} - 3 \text{ Current Liabilities} = ₹ 36,000$

or  $1.5 \text{ Current Liabilities} = ₹ 36,000$

Thus,  $\text{Current Liabilities} = 36,000 / 1.5 = ₹ 24,000$

and  $\text{Current Assets} = 4.5 \text{ Current Liabilities}$

$\text{Current Liabilities} = 4.5 \times 24,000 = ₹ 1,08,000$

**Q. 22. Current Ratio 4, Liquid Ratio 2.5; Inventory ₹ 6,00,000. Calculate Current Liabilities, Current Assets and Liquid Assets.**

Ans.  $\text{Current Ratio} = \frac{\text{Current Assets (C.A.)}}{\text{Current Liabilities (C.L.)}} = \frac{4}{1}$

or  $\text{Current Assets} = 4 \text{ Current Liabilities}$

$\text{Liquid Ratio} = \frac{\text{Liquid Assets (L.A.)}}{\text{Current Liabilities (CL)}} = \frac{2.5}{1}$

or  $\text{Liquid Assets} = 2.5 \text{ Current Liabilities}$

Now,  $\text{Current Assets} - \text{Liquid Assets} = \text{Stock}$

$4 \text{ Current Liabilities} - 2.5 \text{ Current Liabilities} = ₹ 6,00,000$

$1.5 \text{ Current Liabilities} = ₹ 6,00,000$

$\text{Current Liabilities} = ₹ 6,00,000 / 1.5 = ₹ 4,00,000$

$\text{Current Assets} = ₹ 4 \times ₹ 4,00,000 = ₹ 16,00,000$

$\text{Liquid Assets} = 2.5 \times ₹ 4,00,000 = ₹ 10,00,000$

**Q. 23. Current Liabilities of a company are ₹ 1,50,000. Its Current Ratio is 3 : 1 and Acid Test Ratio (Liquid Ratio) is 1 : 1. Calculate values of Current Assets, Liquid Assets and Inventory.**

Ans. Given,  $\text{Liquid Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{1}{1}$

or  $\text{LA (liquid assets)} = \text{Current Liabilities} = ₹ 1,50,000$

and  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3}{1}$

or  $\text{Current Assets} = 3 \text{ Current Liabilities} = 3 \times 1,50,000 = ₹ 4,50,000$

Now,  $\text{Stock} = \text{Current Assets} - \text{Liquid Assets}$

$= ₹ 4,50,000 - ₹ 1,50,000 = ₹ 3,00,000$

**Q. 24. A Limited's Liquidity Ratio is 2.5 : 1. Inventory is ₹ 6,00,000. Current Ratio is 4 : 1. Find out the Current liabilities.**

Ans.  $\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}} = \frac{2.5}{1}$

and  $\text{Current Ratio} = \frac{\text{Current Assets}}{1} = \frac{4}{1}$

Then,  $\text{Liquid Assets} = 2.5 \text{ Current Liabilities}$



and  $\text{Current Assets} = 4 \text{ Current Liabilities}$   
 Now,  $\text{Liquid Assets} = \text{Current Assets} - \text{Stock}$   
 or  $2.5 \text{ Current Liabilities} = 4 \text{ Current Liabilities} - ₹ 6,00,000$   
 or  $₹ 6,00,000 = 4 \text{ Current Liabilities} - 2.5 \text{ Current Liabilities}$   
 or  $₹ 6,00,000 = 1.5 \text{ Current Liabilities}$   
 or  $\text{Current Liabilities} = 6,00,000 / 1.5 = ₹ 4,00,000$   
 Thus,  $\text{Current Liabilities} = ₹ 4,00,000$

**Q. 25. Current Assets of a company are ₹ 5,00,000. Its Current Ratio is 2.5 : 1 and Quick Ratio is 1 : 1. Calculate value of Current Liabilities, Liquid Assets and Inventory.**

Ans. Given,  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2.5}{1}$   
 or  $\text{Current Liabilities} = \frac{\text{Current Assets}}{2.5} = \frac{5,00,000}{2.5}$   
 $= ₹ 2,00,000$

and  $\text{Quick Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{1}{1}$   
 or  $\text{Liquid Assets} = \text{Current Liabilities} = ₹ 2,00,000$   
 Now,  $\text{Stock} = \text{Current Assets} - \text{LA}$   
 $= ₹ 5,00,000 - 2,00,000 = ₹ 3,00,000$

**Q. 26. Quick Ratio of a company is 2 : 1. State giving reasons which of the following transactions would (i) Improve, (ii) Reduce, (iii) Not change the Quick Ratio:**

(a) Purchase of goods for cash; (b) Purchase of goods on credit; (c) Sale of goods (costing ₹ 10,000) for ₹ 10,000; (d) Sale of goods (costing ₹ 10,000) for ₹ 11,000; (e) Cash received from Trade Receivables.

Ans. Given  $\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$

Let,  $\text{Current Liabilities} = ₹ 10,000$

Then,  $\text{Quick Assets} = ₹ 20,000$

(a) Let, Purchase of Goods for cash = 5,000

Then,  $\text{Quick Ratio} = \frac{20,000 - 5,000}{10,000} = \frac{15,000}{10,000} = \frac{1.5}{1}$

Thus, the Quick Ratio would reduce.

(b) Let, Purchase of Goods on credit = ₹ 5,000

Then,  $\text{New Quick Ratio} = \frac{20,000}{10,000 + 5,000} = \frac{20,000}{15,000} = \frac{4}{3}$

Thus, the Quick Ratio would reduce.

(c) If, Sale of Goods costing = ₹ 10,000 for ₹ 10,000

$$\text{Then, New Quick Ratio} = \frac{20,000 + 10,000}{10,000} = \frac{30,000}{10,000} = \frac{3}{1}$$

Thus, the Quick Ratio would improve.

(d) If Sales of Goods costing ₹ 10,000 for ₹ 11,000.

$$\text{Then, New Quick Ratio} = \frac{20,000 + 11,000}{10,000} = \frac{31,000}{10,000} = \frac{3.1}{1}$$

Thus, the Quick Ratio improve.

(e) Let, Cash received from Debtors = ₹ 5,000

$$\text{Then, New Quick Ratio} = \frac{20,000 + 5,000 - 5,000}{10,000} = \frac{20,000}{10,000} = \frac{2}{1}$$

Thus, the Quick Ratio would not change.

**Q. 27.** The Quick Ratio of a company is 0.8 : 1. State with reason, whether the following transactions will increase, decrease or not change the Quick Ratio—

(i) Purchase of loose tools for ₹ 2,000; (ii) Insurance premium paid in advance ₹ 500; (iii) Sales of goods on credit ₹ 3,000; (iv) Honoured a bills payable of ₹ 5,000 on maturity.

**Ans.** Statement showing Effects on Quick Ratio [Given : Q/R = 0.8 : 1]

S.No.	Effect	Reason
(i)	Decrease	Cash in hand (Quick Assets) have decreased by ₹ 2,000 but current liabilities have not changed
(ii)	Decrease	-do-
(iii)	Increase	Trade Receivable (Quick Assets) have increased by ₹ 3,000 but current liabilities remains constant.
(iv)	Decrease	Bill Payable (Current liabilities) and cash (Quick assets) both will decreased by ₹ 5,000.

**Q. 28.** XYZ Limited's Inventory is ₹ 3,00,000. Total Liquid Assets are ₹ 12,00,000 and Quick Ratio is 2 : 1. Work out Current Ratio.

$$\text{Ans. Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\frac{2}{1} = \frac{12,00,000}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \frac{12,00,000}{2} = ₹ 6,00,000$$

$$\begin{aligned} \text{Current Assets} &= \text{Liquid Asset} + \text{Inventory} \\ &= 12,00,000 + 3,00,000 = ₹ 15,00,000 \end{aligned}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{15,00,000}{6,00,000} = 2.5 : 1$$

**Q.29. Total Assets ₹ 22,00,000. Fixed Assets ₹ 10,00,000; Capital employed ₹ 20,00,000. There were no Long-term Investments. Calculate Current Ratio.**

Ans.  $\text{Current Assets} = \text{Total Assets} - \text{Fixed Assets}$   
 $= 22,00,000 - 10,00,000 = 12,00,000$   
 $\text{Current Liabilities} = \text{Total Assets} - \text{Capital Employed}$   
 $= 22,00,000 - 20,00,000 = 2,00,000$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{12,00,000}{2,00,000} = 6:1$$

**Q.30. Capital Employed ₹ 10,00,000; Fixed Assets ₹ 7,00,000; Current Liabilities ₹ 1,00,000. There are no Long-term Investments. Calculate Current Ratio.**

Ans.  $\text{Current Assets} = \text{Capital Employed} + \text{Current Liabilities}$   
 $- \text{Fixed Assets}$   
 $= 10,00,000 + 1,00,000 - 7,00,000 = ₹ 4,00,000$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{4,00,000}{1,00,000} = 4:1$$

**Q.31. Current Assets and Current Liabilities of Times Ltd. are as follows:**

<i>Current Assets</i>	₹	<i>Current Liabilities</i>	₹
Cash and Cash Equivalents	50,000	Creditors	3,00,000
Debtors	3,10,000	Bills Payables	1,20,000
Bills Receivable	30,000	Short-term Borrowings	1,00,000
Marketable Securities	1,50,000		
Inventories	5,00,000		
	10,40,000		5,20,000

**Ans. Calculate Current Ratio and Liquid Ratio**

(i)  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$   
 $= \frac{₹ 10,40,000}{5,20,000} = 2:1$

(ii)  $\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$   
 $= \frac{₹ 50,000 + 3,10,000 + 30,000 + 1,50,000}{5,20,000}$   
 $= \frac{₹ 5,40,000}{5,20,000} = 1.038:1$   
 $= 1.04:1$

### Balance Sheet

at 31st, March, 2018

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$$= 48,000$$
$$= 6.000 +$$
$$= 24,000$$

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Following is the Balance Sheet of Crescent Chemical Works:

Particolare	Importo
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<b>II. ASSETS</b>	
1. Non-Current Assets	
(a) Fixed Assets (Tangible)	45,000
(b) Non-current Investments	5,000
2. Current Assets	
(a) Inventories (Stock)	50,000
(b) Trade Receivables (Debtors)	30,000
(c) Cash and Cash Equivalents	20,000
<b>Total</b>	<b>1,50,000</b>

Compute current ratio and liquid ratio.

Ans. 
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\text{Inventory} + \text{Trade Receivables} + \text{Cash \& Cash Equivalents}}{\text{Short term Borrowing} + \text{Trade Payable} + \text{Short term Provision}}$$

$$= \frac{50,000 + 30,000 + 20,000}{3,000 + 13,000 + 4,000} = \frac{1,00,000}{20,000} = 5:1$$

$$\text{Liquid/Acid Test/Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$= \frac{\text{Trade Receivables} + \text{Cash \& Cash Equivalents}}{\text{Short-term Borrowings} + \text{Trade Payables} + \text{Short-term Provision}}$$

$$= \frac{30,000 + 20,000}{4,000 + 3,000 + 11,000 + 2,000} = \frac{50,000}{20,000} = 2.5:1$$

Q.34. From the following calculate: (i) Current Ratio; and (ii) Quick Ratio:

	₹		₹
Total Debt	6,00,000	Long-term Borrowings	2,00,000
Total Assets	8,00,000	Long-term Provisions	2,00,000
Fixed Assets (Tangible)	3,00,000	Inventories	95,000
Non-current investment	50,000	Prepaid Expenses	5,000
Long-term Loans and Advances	50,000		

Ans.

(i) 
$$\text{Current Ratio} = \frac{\text{C. Assets}}{\text{C. Liabilities}}$$

$$= \frac{\text{₹ 4,00,000}}{2,00,000} = 2:1$$

(ii) 
$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{C. Liabilities}}$$

$$= \frac{\text{₹ } 3,00,000}{2,00,000} = 1.5 : 1$$

**Working Note:**

(a) C. Assets = T. Assets – N.C. Invest. – L.T. Loans & Advances – F. Assets

$$= \text{₹ } [8,00,000 - (50,000 + 50,000 + 3,00,000)]$$

$$= \text{₹ } [8,00,000 - 4,00,000] = \text{₹ } 4,00,000$$

(b) C. Liabilities = T. Debt. – L.T. Borrowings – L.T. Prov.

$$= \text{₹ } [6,00,000 - (2,00,000 + 2,00,000)]$$

$$= \text{₹ } [6,00,000 - 4,00,000] = \text{₹ } 2,00,000$$

(c) Quick Assets = C. Assets – Inventories – P/P Expenses.

$$= \text{₹ } [4,00,000 - (95,000 + 5,000)]$$

$$= \text{₹ } 3,00,000$$

**Q.35. Calculate Debt to Equity Ratio: Equity Share Capital ₹ 5,00,000; General Reserve ₹ 90,000; Accumulated Profits ₹ 50,000; 10% Debentures ₹ 1,30,000; Current Liabilities ₹ 1,00,000.**

**Ans.**

$$\text{Debt} = 10\% \text{ Debentures} = \text{₹ } 1,30,000$$

$$\text{Equity} = \text{Equity Share Capital} + \text{General Reserve}$$

$$+ \text{Accumulated Profit}$$

$$= \text{₹ } 5,00,000 + 90,000 + 50,000 = \text{₹ } 6,40,000$$

$$\text{Debts Equity Ratio} = \frac{1,30,000}{6,40,000} = 0.203 : 1 \text{ or } 0.203 \text{ times}$$

**Q.36. Total Assets ₹ 2,60,000; Total Debts ₹ 1,80,000; Current Liabilities ₹ 20,000. Calculate Debt-Equity Ratio.**

$$\text{Ans. Debt Equity Ratio} = \frac{\text{Long term Debts}}{\text{Equity}}$$

$$= \frac{1,80,000 - 20,000}{2,60,000 - 1,80,000} = \frac{1,60,000}{80,000} = 2 : 1$$

**Q.37. From the following information, calculate Debt-Equity Ratio:**

	(₹)
10,000 Equity Shares of ₹ 10 each fully paid	1,00,000
5,000; 9% Preference Shares of ₹ 10 each fully paid	50,000
General Reserve	45,000
Surplus, i.e., Balance is Statement of Profit and Loss	20,000
10% Debentures	75,000
Current Liabilities	50,000

$$\text{Ans. Long Term Debt} = 10\% \text{ Debentures} = \text{₹ } 75,000$$

$$\text{Equity shareholders fund} = \text{Equity shares} + \text{Preference Shares} + \text{General Reserve} + \text{Profit and Loss A/c}$$

$$= ₹ 1,00,000 + 50,000 + 45,000 + 20,000$$

$$= ₹ 2,15,000$$

$$\text{Debt-Equity Ratio} = \frac{\text{Long-Term}}{\text{Shareholders Fund}}$$

$$= \frac{₹ 75,000}{2,15,000} = 0.35 : 1$$

**Q.38.** When Debt to Equity Ratio is 2, state giving reasons, whether this ratio will increase or decrease or will have no change in each of the following cases:

(i) Sale of Land (Book value ₹ 4,00,000) for ₹ 5,00,000; (ii) Issue of Equity Shares for the purchase of Plant and Machinery worth ₹ 10,00,000; (iii) Issue of Preference Shares for redemption of 13% debentures worth ₹ 10,00,000.

**Ans.** (i) Sale of land at a profit of ₹ 1,00,000 will increase shareholder's funds, hence debt equity ratio will decrease.

(ii) Issue of equity shares for purchase of plant and machinery will increase shareholder's funds, therefore, the ratio will decrease.

(iii) Long term debts are decreased and shareholders funds are increased by the same amount, so, the ratio will decrease.

**Q.39.** Total Assets ₹ 12,50,000; Total Debts ₹ 10,00,000; Current Liabilities ₹ 5,00,000. Calculate Debt to Equity Ratio.

**Ans.**

$$\text{Debt-Equity Ratio} = \frac{\text{Long term Debts}}{\text{Equity Shareholder Funds}}$$

$$\frac{\text{Total Debts} - \text{Current Liabilities}}{\text{Total Assets} - \text{Total Debts}} = \frac{10,00,000 - 5,00,000}{12,50,000 - 10,00,000}$$

$$= \frac{5,00,000}{2,50,000} = 2 : 1$$

**Q.40.** Capital employed ₹ 8,00,000; shareholders fund ₹ 2,00,000. Calculate Debt to Equity Ratio.

**Ans.**

$$\text{Debt} = \text{Capital Employed} - \text{Shareholders Funds}$$

$$= ₹ 8,00,000 - 2,00,000 = ₹ 6,00,000$$

$$\text{Debts Equity Ratio} = \frac{\text{Long term Debt}}{\text{Shareholders Fund}}$$

$$= \frac{6,00,000}{2,00,000} = 3 : 1$$

**Q. 41.** Balance Sheet had the following figures as a 31st March, 2018 :

		(₹)	(₹)
10% Preference Share Capital	5,00,000	Current Assets	12,00,000
Equity Share Capital	15,00,000	Current Liabilities	8,00,000
Securities Premium Reserve	1,00,000	Investments (in other companies)	2,00,000
Reserves and Surplus	4,00,000	Fixed Assets – Cost	60,00,000
Long-term Loan from IDBI @ 9%	30,00,000	Depreciation Written off	14,00,000

Calculate ratios indicating the Long-term and the Short-term financial position of the company.

$$\begin{aligned}
 \text{Ans. Debt-Equity ratio} &= \frac{\text{Long term Debts}}{\text{Equity Shareholder Funds}} \\
 &= \frac{\text{Loan from IDBI}}{\text{Pref. + Equity Share Capital + Reserve \& Surplus}} \\
 &= \frac{30,00,000}{5,00,000 + 15,00,000 + 4,00,000} = \frac{30,00,000}{24,00,000} \\
 &= 1.25 : 1
 \end{aligned}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{12,00,000}{8,00,000} = 1.5 : 1$$

Q.42. Calculate Debt to Equity Ratio from the following information.

	₹		₹
Fixed Assets (Gross)	8,40,000	Current Assets	3,50,000
Accumulated Depreciation	1,40,000	Current Liabilities	2,80,000
Non-current Investments	14,000	10% Long-term Borrowings	4,20,000
Long term Loans and Advances	56,000	Long-term Provisions	1,40,000

$$\begin{aligned}
 \text{Ans. Debts to Equity Ratio} &= \frac{\text{Debt}}{\text{Equity}} \\
 &= \frac{\text{₹ } 5,60,000}{2,80,000} = 2 : 1
 \end{aligned}$$

Working Note:

$$\begin{aligned}
 \text{Debts} &= 10\% \text{ L.T. Borrowings} + \text{L.T. Prov.} \\
 &= \text{₹ } [4,20,000 + 1,40,000] = \text{₹ } 5,60,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Equity} &= [\text{Fix. Assets} - \text{Dep.}] + \text{N.C. Inv.} + \text{L.T. Loan \& Adv.} + \text{C. Asset.}] \\
 &\quad - [\text{C. Liab.} + \text{Debt}] \\
 &= [(8,40,000 - 1,40,000) + 14,000 + 56,000 + 3,50,000] - [280,000 + 5,60,000] \\
 &= \text{₹ } (11,20,000 - 8,40,000) = \text{₹ } 2,80,000
 \end{aligned}$$

Q.43. Debt to Equity Ratio of a company is 0.5:1. Which of the following suggestions would increase, decrease or not change it.

- (i) Issue of Equity Shares
- (ii) Cash received from debtors
- (iii) Redemption of debentures
- (iv) Purchased goods on credit

- Ans. (i) Decrease; because issue of equity share will increase the value of equity.  
 (ii) Not change; because transactions related with C.Asset.  
 (iii) Decrease; because redemption of debentures will decrease the value of debt.  
 (iv) Not change; because, transactions related with C. Assets and C.Liabilities.



**Q.44.** Assuming that the Debt to Equity Ratio is 2 : 1, state giving reasons, which of the following transactions would (i) increase; (ii) Decrease; (iii) Not alter Debt to Equity Ratio.

- (i) Issue of new shares for cash.
- (ii) Conversion of debentures into equity shares.
- (iii) Sale of a fixed asset at profit.
- (iv) Purchase of a fixed asset on long-term deferred payment basis.
- (v) Payment to creditors.

**Ans.** Statement showing Effect on Debt/Equity of 2 : 1.

Case	Effect	Reason
(i)	Decrease	Only the amount of Equity will increase.
(ii)	Decrease	Amount of Debt will decrease and of Equity will Increase.
(iii)	Decrease	Amount of Equity will increase.
(iv)	Increase	Amount of Debt will increase.
(v)	No change	Transaction related to C. Assets and C. Liability.

**Q.45.** From the following Balance Sheet of ABC Ltd. as at 31st March, 2018, calculate Debt to Equity Ratio.

Particulars		(₹)
<b>I. Equity and Liabilities</b>		
1. Shareholder's Funds		
(a) Share Capital:		
(i) Equity Share Capital	5,00,000	
(ii) 10% Preference Share Capital	5,00,000	10,00,000
(b) Reserves and Surplus		2,40,000
2. Non-Current Liabilities		
Long-term Borrowing (Debentures)		2,50,000
3. Current Liabilities		
(a) Trade Payables		4,30,000
(b) Other Current Liabilities		20,000
(c) Short-term Provisions: Provision for Tax		3,00,000
<b>Total</b>		<b>22,40,000</b>
<b>II. Assets</b>		
1. Non-Current Assets		
Fixed Assets:		
(i) Tangible Assets		6,40,000
(ii) Intangible Assets		1,00,000
2. Current Assets		
(a) Inventories		7,50,000
(b) Trade Receivables		6,40,000
(c) Cash and Cash Equivalents		1,10,000
<b>Total</b>		<b>22,40,000</b>

Ans. Debt = 12% Debenture = ₹ 2,50,000

Equity = Equity Share Capital + 12% Preference Shares + Reserves & Surplus  
 = ₹ 5,00,000 + 5,00,000 + 2,40,000 = 12,40,000

Debt-Equity Ratio = 2,50,000/12,40,000 = 0.2 : 1 or 0.2 times.

Q.46. Calculate Total Assets to Debt Ratio from the following information.

Long-term Debt ₹ 4,00,000; Total Assets ₹ 7,70,000.

Ans. Total Assets to Debt Ratio =  $\frac{\text{Total Assets}}{\text{Debts}}$   
 =  $\frac{₹ 7,70,000}{4,00,000} = 1.925 : 1$

Q.47. Shareholder's Funds ₹ 1,60,000; Total Debts ₹ 3,60,000; Current Liabilities ₹ 40,000. Calculate Total Assets to Debt Ratio.

Ans. Total Assets = Shareholders Fund + Total Debts  
 = ₹ 1,60,000 + 3,60,000 = ₹ 5,20,000  
 Long Term Debt = Total Debts – Current Liabilities  
 = ₹ 3,60,000 – 40,000 = ₹ 3,20,000

Total Assets to Debt Ratio =  $\frac{\text{Total Assets}}{\text{Long term Debts}}$   
 = ₹ 5,20,000/₹3,20,000 = 13:8

Q.48. On the basis of the following information, calculate Total Assets to Debt Ratio.

	(₹)		(₹)
Capital Employed	50,00,000	Share Capital	35,00,000
Current Liabilities	20,00,000	10% Debentures	10,00,000
Land and Building	60,00,000	General Reserve	3,00,000
Trade Receivable	4,00,000	Surplus, i.e., Balance in	
Cash and Cash Equivalents	5,00,000	Statement of Profit and Loss	2,00,000
Investment (Trade)	1,00,000		

Ans. Working Notes

Total Assets = Capital Employed + Current Liabilities  
 = ₹ 50,00,000 + 20,00,000  
 = ₹ 70,00,000

Debt. = 10% Debentures ₹ 10,00,000

Total Assets to Debt. Ratio =  $\frac{\text{Total Assets}}{\text{Debt.}} = \frac{70,00,000}{10,00,000} = 7 : 1$

Q.49. Total Debt ₹ 60,00,000; Shareholder's Funds ₹ 10,00,000; Reserves and Surplus ₹ 2,50,000; Current Assets ₹ 25,00,000; Working Capital ₹ 5,00,000. Calculate Total Assets to Debt ratio—

**Ans. Working Note**

- (i) Total Assets = T/Debt + Shareholder's Fund  
 = ₹ 60,00,000 + 10,00,000 = ₹ 70,00,000
- (ii) Long term Debt. = T/Debt – [C/Assets – W. Capital]  
 = ₹ 60,00,000 – [25,00,000 – 5,00,000]  
 = ₹ 60,00,000 – 20,00,000 = ₹ 40,00,000

$$\begin{aligned} \text{T. Assets to Debt Ratio} &= \frac{\text{Total Assets}}{\text{Long - Term Debt}} \\ &= \frac{70,00,000}{40,00,000} = 7 : 4 \end{aligned}$$

**Q.50. Total Debt ₹ 15,00,000; Current Liabilities ₹ 5,00,000; Capital Employed ₹ 15,00,000. Calculate Total Assets to Debt Ratio.**

**Ans. Working Notes**

- (i) Total Assets = C/Liab. + Cap. Employed  
 = 5,00,000 + 15,00,000 = ₹ 20,00,000
- (ii) Long-term Debt = Total Debts – C/Liabilities  
 = 15,00,000 – 5, 00,000 = ₹ 10,00,000

$$\begin{aligned} \text{So, Total Assets to Debt Ratio} &= \frac{\text{Total Assets}}{\text{Long-term Debt}} \\ &= \frac{20,00,000}{10,00,000} = 2 : 1 \end{aligned}$$

**Q.51. Calculate Total Assets to Debt Ratio from the following information.**

	(₹)		(₹)
Total Assets	15,00,000	Bills Payable	60,000
Total Debts	12,00,000	Bank Overdraft	50,000
Creditors	90,000	Outstanding Expenses	20,000

$$\begin{aligned} \text{Ans. Total Assets to Debt. Ratio} &= \frac{\text{Total Assets}}{\text{Debt.}} = \frac{15,00,000}{9,80,000} \\ &= 1.53 : 1 \end{aligned}$$

$$\begin{aligned} \text{Here, Debt.} &= \text{Total Debts} - \text{Current Liabilities} \\ &= ₹ 12,00,000 - [90,000 + 60,000 + 50,000 + 20,000] \\ &= ₹ 12,00,000 - 2,20,000 \\ &= ₹ 9,80,000 \end{aligned}$$

**Q.52. Total Debt ₹ 12,00,000; Shareholder's Funds ₹ 2,00,000; Reserves and Surplus ₹ 50,000; Current Assets ₹ 5,00,000; Working Capital ₹ 1,00,000. Calculate Total Assets to Debt Ratio.**

$$\begin{aligned}\text{Ans. Total Assets to Debt Ratio} &= \frac{\text{Total Assets}}{\text{Debt.}} \\ &= \frac{\text{₹ } 14,00,000}{8,00,000} = 1.75 : 1\end{aligned}$$

**Working Note:**

$$\begin{aligned}\text{(i) Debt} &= \text{Total Debts} - (\text{C. Assets} - \text{W. Capital}) \\ &= \text{₹ } [12,00,000 - (5,00,000 - 1,00,000)] \\ &= \text{₹ } 12,00,000 - 4,00,000 = \text{₹ } 8,00,000\end{aligned}$$

$$\begin{aligned}\text{(ii) Total Assets} &= \text{Total Debt} + \text{Sh. Funds} \\ &= \text{₹ } (12,00,000 + 2,00,000) = \text{₹ } 14,00,000\end{aligned}$$

**Q.53. Total Debt ₹ 12,00,000; Current Liabilities ₹ 4,00,000; Capital Employed ₹ 12,00,000. Calculate Total Assets to Debt Ratio.**

$$\begin{aligned}\text{Ans. Total Assets to Debt Ratio} &= \frac{\text{Total Assets}}{\text{Debt.}} \\ &= \frac{16,00,000}{8,00,000} = 2 : 1\end{aligned}$$

**Working Note:**

$$\begin{aligned}\text{(i) Total Assets} &= \text{Capital Employed} + \text{C. Liabilities} \\ &= \text{₹ } [12,00,000 + 4,00,000] = \text{₹ } 16,00,000\end{aligned}$$

$$\begin{aligned}\text{(ii) Debt} &= \text{Total Debt} - \text{C. Liabilities} \\ &= \text{₹ } [12,00,000 - 4,00,000] = \text{₹ } 8,00,000\end{aligned}$$

**Q.54. From the following information, calculate Total Assets to Debt Ratio.**

	(₹)		(₹)
Fixed Assets (Gross)	6,00,000	Accumulated Depreciation	1,00,000
Non-current Investments	10,000	Long-term Loans and Advances	40,000
Current Assets	2,50,000	Current Liabilities	2,00,000
Long-term Borrowings	3,50,000	Long-term Provision	1,00,000

$$\begin{aligned}\text{Ans. Total Assets to Debt} &= \frac{\text{Total Assets}}{\text{Debt.}} \\ &= \frac{8,00,000}{4,00,000} = 2 : 1\end{aligned}$$

**Working Note:**

$$\begin{aligned}\text{(i) Total Assets} &: (\text{Fix. Assets} - \text{Acc. Dep.}) + \text{N.C. Invest} + \text{L.T. Loans \& Adv.} + \text{Current Assets.} \\ &= [(6,00,000 - 1,00,000) + 10,000 + 40,000 + 2,50,000] \\ &= \text{₹ } 8,00,000 \\ \text{(ii) Debt} &= \text{L.T. Borrowings} + \text{L.T. Provisions} \\ &= \text{₹ } (3,00,000 + 1,00,000) = \text{₹ } 4,00,000\end{aligned}$$

**Q.55. Following is the Balance Sheet of Bright Co. Ltd. as at 31st March, 2018**

<b>Particulars</b>		<b>(₹)</b>
<b>I. Equity and Liabilities</b>		
1. Shareholder's Funds		
(a) Share Capital		7,00,000
(b) Reserves and Surplus		
(i) General Reserve	80,000	
(ii) Surplus, i.e., Balance in Statement of Profit & Loss	20,000	1,00,000
2. Non-Current Liabilities		
(a) Long-term Borrowings (12% Debentures)		2,00,000
3. Current Liabilities		
(a) Trade Payables		50,000
(b) Other Current Liabilities		50,000
<b>Total</b>		<b>11,00,000</b>
<b>II. Assets</b>		
1. Non-Current Assets		
(a) Fixed assets: (Tangible assets)		6,00,000
2. Current assets		
(a) Inventories		1,50,000
(b) Trade Receivables		2,50,000
(c) Cash and Cash Equivalents		1,00,000
<b>Total</b>		<b>11,00,000</b>

**Calculate Total Assets to Debt Ratio**

**Ans.**            **Total Assets = Non Current Assets + Current Assets**  
                       = 6,00,000 + 5,00,000 = 11,00,000  
                       **Debt = Debentures = ₹ 2,00,000**

**Total Assets to debt ratio =  $\frac{\text{Total Assets}}{\text{Debt.}}$**   
   =  $\frac{11,00,000}{2,00,000}$  = 5.5 : 1 or 5.5 times

**Q. 56. From the following information, calculate Proprietary Ratio.**

Share Capital	₹ 3,00,000	Reserves and Surplus	₹ 1,80,000
Non-Current Assets	₹ 13,20,000	Current Assets	₹ 6,00,000

**Ans. Working Note—**

(i) Shareholders' Fund = Share Capital + Reserve & Surplus  
                                   = ₹ [3,00,000 + 1,80,000] = ₹ 4,80,000

$$(ii) \text{ Total Assets} = \text{Non Current Assets} + \text{Current Assets} \\ = ₹ [13,20,000 + 6,00,000] = ₹ 19,20,000$$

$$\text{Proprietary Ratio} = \frac{\text{Shareholders' Fund}}{\text{Total Assets}} = \frac{₹ 4,80,000}{19,20,000} = 0.25 : 1$$

**Q. 57. From the following information, calculate the Proprietary Ratio: (₹)**

Equity Share Capital	3,00,000
Preference Share Capital	1,50,000
Reserves and Surplus	75,000
Debentures	1,80,000
Trade Payables	45,000
	<u>7,50,000</u>
Fixed Assets	3,75,000
Current Assets	2,25,000
Short Term Investments	1,50,000
	<u>7,50,000</u>

$$\text{Ans. Shareholder's funds} = 3,00,000 + 1,50,000 = 5,25,000 \\ \text{Total Assets} = 7,50,000$$

$$\text{Proprietary Ratio} = \frac{\text{Shareholders funds}}{\text{Total Assets}} \\ = \frac{5,25,000}{7,50,000} = 0.7 = 70\%$$

**Q. 58. Calculate the Proprietary Ratio from the following:**

	₹		₹
Equity Share Capital	4,50,000	9% Debentures	3,00,000
10% Preference Share Capital	3,20,000	Fixed Assets	7,00,000
Reserve and Surplus	65,000	Trade Investment	2,45,000
Creditors	1,10,000	Current Assets	3,00,000

$$\text{Ans. Proprietary Ratio} = \frac{\text{Shareholder's Fund}}{\text{Total Assets}}$$

$$\text{Shareholder's Fund} = \text{Equity Share Capital} + \text{Preference Share Capital} \\ + \text{Reserve and Surplus}$$

$$= 4,50,000 + 3,20,000 + 65,000 = 8,35,000$$

$$\text{Total Assets} = \text{Fixed Assets} + \text{Trade Investment} + \text{Current Assets} \\ = 7,00,000 + 2,45,000 + 3,00,000 = 12,45,000$$

$$\text{Proprietary Ratio} = \frac{8,30,000}{12,45,000} = 0.67 : 1$$

**Q. 59. From the following information, calculate Proprietary Ratio.**

**Balance Sheet of A Ltd.**

**as at 31st March, 2018**

<i>Particulars</i>	<i>(₹)</i>
<b>I. EQUITY AND LIABILITIES</b>	
1. Shareholder's Funds	
(a) Share Capital	6,00,000
(b) Reserves and Surplus	1,50,000
2. Current Liabilities	
(a) Trade Payables	1,00,000
(b) Other Current Liabilities	50,000
(c) Short-term Provisions (Tax)	1,00,000
<b>Total</b>	<b>10,00,000</b>
<b>II. ASSETS</b>	
1. Non-Current Assets	
(a) Fixed Assets – (Tangible Assets)	5,00,000
2. Current Assets	
(a) Short-term Investments	1,50,000
(b) Inventories	1,00,000
(c) Trade Receivables	1,50,000
(d) Cash and Cash Equivalents	1,00,000
<b>Total</b>	<b>10,00,000</b>

**Ans.** Shareholder's Funds = 6,00,000 + 1,50,000 = 7,50,000

Total Assets = 10,00,000

$$\text{Proprietary Ratio} = \frac{\text{Shareholders funds}}{\text{Total Assets}}$$

$$= \frac{7,50,000}{10,00,000} = 0.75 : 1$$

**Q. 60. State with reasons, whether the Proprietary Ratio will improve, decline or will not change because of the following transaction if Proprietary Ratio is 0.8 : 1.**

(i) Obtained a loan of ₹ 5,00,000 from State Bank of India payable after five years.

(ii) Purchased machinery of ₹ 2,00,000 by cheque.

(iii) Redeemed 7% Redeemable Preference Shares ₹ 3,00,000.

(iv) Issued equity shares to the vendor of building purchased for ₹ 7,00,000.

(v) Redeemed 10% redeemable debentures of ₹ 6,00,000

**Ans. Statement Showing Effects on Proprietary Ratio (Given—0.8 : 1)**

<i>S.No.</i>	<i>Effect</i>	<i>Reason</i>
(i)	Decline	Total Assets increase by ₹ 5,00,000 but shareholders fund remain constant.
(ii)	No change	Transaction between a non-current and current assets.
(iii)	Decline	Total Assets and shareholder Funds' both will decrease by same amount.
(iv)	Improve	Total Assets and Shareholders Fund' both will increase by same amount.
(v)	Improve	Total Assets will decrease but shareholders' Fund will remain constant.

**Q. 61.** If Profit before interest and Tax is ₹ 5,00,000 and interest on long-term funds is ₹ 1,00,000, find Interest Coverage Ratio.

$$\begin{aligned}\text{Ans. Interest Coverage Ratio} &= \frac{\text{Profit before Interest and Taxes}}{\text{Interest}} \\ &= \frac{5,00,000}{1,00,000} = 5 \text{ times}\end{aligned}$$

**Q. 62.** From the following information calculate Interest Coverage Ratio: Profit After Tax ₹ 1,70,000; Tax ₹ 30,000; Interest on Long-term Funds ₹ 50,000.

$$\begin{aligned}\text{Ans. Interest Coverage Ratio} &= \frac{\text{Profit before Interest and Taxes}}{\text{Interest}} \\ &= \frac{1,70,000 + 30,000 + 50,000}{50,000} \\ &= \frac{2,50,000}{50,000} = 5 \text{ times}\end{aligned}$$

**Q. 63.** From the following information, calculate the Interest coverage Ratio:

	₹
10,000 Equity Shares of ₹ 10 each	1,00,000
8% Preference shares	70,000
10% Debentures	50,000
Long-term Loans from Bank	50,000
Interest on Long-term Loans from Bank	5,000
Profit after Tax	75,000
Tax	9,000

$$\text{Ans. Interest Coverage Ratio} = \frac{\text{Profit before Interest and Taxes}}{\text{Interest}}$$

Profit before interest and taxes = Profit after tax + Taxes + Interest from long term loan from Bank + Interest on debentures



$$= 75,000 + 9,000 + 5,000 + (50,000 \times 10\%)$$

$$= 94,000$$

$$\text{Interest Coverage Ratio} = \frac{94,000}{(50,000 + 50,000)} = 9.4 \text{ times}$$

**Q. 64. From the following details, calculate Inventory Turnover Ratio:**

	₹
Cost of Revenue from operations or Cost of good sold	4,50,000
Inventory in the beginning of the year	1,25,000
Inventory at the close of the year	1,75,000

**Ans.** Average Stock =  $\frac{1}{2}(1,25,000 + 1,75,000) = ₹ 1,50,000$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Stock}}$$

$$= \frac{4,50,000}{1,50,000} = 3 \text{ times}$$

**Q. 65. Cost of Goods Sold or Cost of Revenue from Operations ₹ 5,00,000; Purchases ₹ 5,50,000; Opening Inventory ₹ 1,00,000. Calculate inventory turnover ratio:**

**Ans.** Closing Inventory = Opening Inventory + Purchase – Cost of Sales

$$= ₹ 1,00,000 + 5,50,000 - ₹ 1,50,000 = ₹ 1,50,000$$

$$\text{Average Inventory} = \frac{1,00,000 + 1,50,000}{2} = ₹ 1,25,000$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}} = \frac{5,00,000}{1,25,000} = 4 \text{ times}$$

**Q. 66. Calculate Inventory Turnover Ratio from the following information: Opening Inventory is ₹ 50,000; Purchases ₹ 3,90,000; Revenue from Operations, i.e., (Net Sales) ₹ 6,00,000; Gross Profit Ratio 30%.**

**Ans.** Inventory Turnover Ratio =  $\frac{\text{Cost of goods sold}}{\text{Average Inventory}}$

$$= \frac{4,20,000}{35,000} = 12 \text{ times}$$

$$\begin{aligned} \text{Here COGS} &= \text{Revenue from operation} - \text{Gross Profit} \\ &= ₹ 6,00,000 - (30\% \text{ of } 6,00,000) \\ &= ₹ 6,00,000 - 1,80,000 = ₹ 4,20,000 \end{aligned}$$

$$\begin{aligned} \text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{₹ 50,000 + [(3,90,000 + 50,000) - 4,20,000]}{2} \end{aligned}$$

$$= \frac{₹ 50,000 + 20,000}{2} = ₹ 35,000$$

**Q. 67. Calculate Inventory Turnover Ratio from the following:**

	(₹)
Opening Inventory	29,000
Closing Inventory	31,000
Revenue from Operations, i.e., Sales	3,20,000
Gross Profit Ratio 25%	

**Ans.** Inventory Turnover Ratio =  $\frac{\text{Cost of goods sold}}{\text{Average Stock}}$

$$= \frac{3,20,000 \times 75\%}{\frac{1}{2}(29,000 + 31,000)} = \frac{2,40,000}{30,000} = 8 \text{ times.}$$

**Q. 68. From the following information, calculate Inventory Turnover Ratio.**

	₹
Revenue from Operations	16,00,000
Average Inventory	2,20,000
Gross Loss Ratio 5%	

**Ans.** Given: Rev. from operations = ₹ 16,00,000, Av. Inv. = ₹ 2,20,000

Gross Loss Ratio = 5%

$$\begin{aligned} \text{Cost of Revenue} &= \text{Rev. from operations} + \text{Gross Loss Ratio} \\ &= ₹ 16,00,000 + 5\% = ₹(16,00,000 + 80,000) \\ &= ₹ 16,80,000 \end{aligned}$$

$$\begin{aligned} \text{Inventory Turnover Ratio} &= \text{Cost of Rev.} / \text{Av. Inv.} \\ &= ₹ (16,80,000 / 2,20,000) \\ &= 7.64 \text{ times.} \end{aligned}$$

**Q. 69. Revenue from Operations ₹ 4,00,000; Gross Profit ₹ 1,00,000; Closing Inventory ₹ 1,20,000; Excess of closing Inventory over Opening Inventory ₹ 40,000. Calculate Inventory Turnover Ratio.**

**Ans.**

$$\begin{aligned} \text{Cost of Goods Sold} &= \text{Net Sales} - \text{Gross Profit} \\ &= 4,00,000 - 1,00,000 = ₹ 3,00,000 \end{aligned}$$

$$\text{Average Inventory} = \frac{1}{2}(1,20,000 + 80,000) = ₹ 1,00,000$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Stock}} = \frac{3,00,000}{1,00,000} = 3 \text{ times}$$

**Q. 70. From the following data calculate Inventory Turnover Ratio:**

Total Sales ₹ 5,00,000; Sales Return ₹ 50,000; Gross Profit ₹ 90,000; Closing Inventory ₹ 1,00,000; Excess of closing Inventory over Opening Inventory ₹ 20,000.

$$\begin{aligned}\text{Ans. Inventory Turnover Ratio} &= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} \\ &= \frac{\text{₹ } 3,60,000}{90,000} = 4 \text{ times}\end{aligned}$$

$$\begin{aligned}\text{COGS} &= \text{Total Sales} - \text{Sales Return} - \text{Gross Profit} \\ &= \text{₹ } 5,00,000 - 50,000 - 90,000 = \text{₹ } 3,60,000\end{aligned}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{\text{₹ } (1,00,000 - 20,000) + 1,00,000}{2} \\ &= \text{₹ } 90,000\end{aligned}$$

**Q. 71.** ₹ 2,00,000 is the Cost Goods Sold or Cost of Revenue from Operations, during the year. If Inventory Ratio is 8 times, calculate inventories at the end of the year. Inventories at the end is 1.5 times that in the beginning.

$$\text{Ans. Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$8 = \frac{2,00,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{2,00,000}{8} = \text{₹ } 25,000$$

Let Opening Inventory = X

Then, closing inventory = 1.5x

$$\text{Average Inventory} = \frac{X + 1.5X}{2} = \frac{2.5X}{2} = 1.25X$$

Thus,  $1.25 X = 25,000$

$$\text{or } X = \frac{25,000}{1.25} = \text{₹ } 20,000$$

$$\text{Closing Inventory} = 1.5 X = 1.5 \times 20,000 = \text{₹ } 30,000$$

**Q. 72.** Calculate Inventory Turnover Ratio from the following information: Opening Inventory ₹ 40,000; Purchases ₹ 3,20,000; and Closing Inventory ₹ 1,20,000. State giving reason, which of the following transactions would (i) increase, (ii) decrease, (iii) neither increase nor decrease the Inventory Turnover Ratio.

- Sale of goods for ₹ 40,000 (Cost ₹ 32,000).
- Increase in the value of Closing Inventory by ₹ 40,000.
- Goods purchased for ₹ 80,000.
- Purchases return ₹ 20,000.
- Goods costing ₹ 10,000 withdrawn for personal use.
- Goods costing ₹ 20,000 distributed as free samples.

$$\text{Ans. Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{40,000 + 1,20,000}{2} \\ &= \frac{1,60,000}{2} = 80,000\end{aligned}$$

$$\begin{aligned}\text{Cost of good sold} &= \text{Opening Inventory} + \text{Purchase} - \text{Closing Inventory} \\ &= 40,000 + 3,20,000 - 1,20,000 \\ &= 2,40,000\end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{2,40,000}{80,000} = 3 \text{ times}$$

Statement showing the effect of transactions on inventory turnover ratio:

Case	Effect	Reason
(i)	Increase	Because "cost of Rev." will increase and "closing inventory" will decrease by same amount.
(ii)	Decrease	Because the value of "closing inventory" will increase only.
(iii)	Decrease	Because the value of "closing and average inventory" will increase.
(iv)	Increase	Because the value of "average inventory" will decrease.
(v)	Increase	Because the value of "closing and average inventory" will decrease.
(vi)	Increase	Because the value "closing and average inventory" will decrease.

**Q. 73. Calculate Inventory Turnover Ratio from the data given below:**

	(₹)
Inventory in the beginning of the year	20,000
Inventory at the end of the year	10,000
Purchases	50,000
Carriage Inwards	5,000
Revenue from operation i.e. sales	1,00,000
State the significance of this ratio.	

$$\begin{aligned}\text{Ans. Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{20,000 + 10,000}{2} = ₹ 15,000\end{aligned}$$

$$\begin{aligned}\text{Cost of goods sold} &= \text{Opening Inventory} + \text{Purchase} + \text{Carriage inwards} - \text{Closing Inventory} \\ &= 20,000 + 50,000 + 5,000 - 10,000 = ₹ 65,000\end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{65,000}{15,000} = 4.33 \text{ times}$$

**Q. 74. From the following information, calculate the value of Opening Inventory.**

**Closing Inventory = ₹ 68,000**

**Total Sales = ₹ 4,80,000 (including Cash Sales ₹ 1,20,000)**

**Total purchases = ₹ 3,60,000 (including Credit Purchases ₹ 2,39,200)**

**Goods are sold at a profit of 25% on cost.**

**Ans.**

<i>Dr. Memorandum Trading Account Cr.</i>			
<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
Opening Inventory (Bal. Fig.)	92,000	Sales	4,80,000
Purchase	3,60,000	Closing Inventory	68,000
Gross Profit	96,000		
	5,48,000		5,48,000

**Note:** Gross Profit = 25% on Cost = 20% on Sales = ₹ 4,80,000 × 20% = ₹ 96,000.

**Q. 75. From the following information, determine the opening and closing Inventories: Inventory-Turnover Ratio 5 times. Total Sales ₹ 2,00,000, Gross Profit Ratio 25%, Closing Inventory is more by ₹ 4,000 than the opening Inventory.**

**Ans.** Given, Inventory Turnover Ratio = 5 times

$$\text{Gross Profit} = \frac{2,00,000}{100} \times 25 = ₹ 50,000$$

$$\begin{aligned} \text{Cost of goods sold} &= \text{Sales} - \text{Gross Profit} \\ &= ₹ 2,00,000 - 50,000 = ₹ 1,50,000 \end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Stock}}$$

$$5 = \frac{1,50,000}{\text{Average Stock}}$$

$$\text{Average Inventory} = \frac{1,50,000}{3} = ₹ 30,000$$

$$\text{or } \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} = 30,000$$

Let Opening Inventory = X

Then Closing Inventory = X + 4000

$$\text{Now, } \frac{X + X + 4,000}{2} = 30,000$$

$$2X + 4,000 = 60,000$$

$$2X = ₹ 60,000 - 4,000 = ₹ 56,000$$

$$\text{Opening Inventory} = X = \frac{56,000}{2} = ₹ 28,000$$

$$\text{Closing Inventory} = X + 4,000 = 28,000 + 4,000 = ₹ 32,000$$

**Q. 76. Following figures have been extracted from Shivalika Mills Ltd.**

**Inventory in the beginning of the year ₹ 60,000**

**Inventory at the end of the year ₹ 1,00,000**

**Inventory Turnover ratio 8 times**

**Selling price 25% above cost**

**Compute amount of Gross profit and Revenue from Operations (Net Sales).**

$$\text{Ans. Average Inventory} = \frac{60,000 + 1,00,000}{2} = 80,000$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\text{or, } 8 = \frac{\text{Cost of goods sold}}{80,000}$$

$$\text{Cost of goods sold} = 80,000 \times 8 = ₹ 6,40,000$$

**Gross Profit = 25% above cost**

$$= \frac{6,40,000 \times 25}{100} = ₹ 1,60,000$$

$$\text{Sales} = \text{Cost of goods sold} + \text{Gross Profit}$$

$$= ₹ 6,40,000 + 1,60,000 = ₹ 8,00,000$$

**Q. 77. Inventory turnover ratio 5 times, cost of goods sold or Cost of Revenue from operations ₹ 18,90,000. Calculate opening Inventory and closing Inventory if inventory at the end is 2.5 times more than that in the beginning.**

**Ans. Given, Inventory Turnover Ratio = 5 times**

$$\text{Cost of goods sold} = ₹ 18,90,000$$

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$5 = \frac{18,90,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{18,90,000}{5} = ₹ 3,78,000$$

$$\frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} = 3,78,000$$

**Let Opening Inventory = X**

**Then Closing Inventory = X + 2.5 X = 3.5 X**

$$\begin{aligned}\text{Now } \frac{X+3.5X}{2} &= ₹ 3,78,000 \\ 4.5 X &= ₹ 7,56,000 \\ X &= \frac{7,56,000}{4.5} = ₹ 1,68,000\end{aligned}$$

Opening Inventory =  $x$  = ₹ 1,68,000

Closing Inventory = ₹ 1,68,000  $\times$  3.5 = ₹ 5,88,000

**Q. 78.** 3,00,000 is the cost of goods sold or Cost of Revenue from Operation. Inventory Turnover Ratio 8 Times; Inventory in the beginning is 2 times more than the Inventory at the end. Calculate value of opening and closing Inventories.

**Ans.** Given, Inventory Turnover Ratio = 8 times

Cost of goods sold = ₹ 3,00,000

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$8 = \frac{3,00,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{3,00,000}{8} = 37,500$$

$$\frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} = 37,500$$

Let Closing Inventory =  $X$

Then Opening Inventory =  $X + 2X = 3X$

$$\begin{aligned}\text{Now, } \frac{X+3X}{2} &= ₹ 37,500 \\ 4X &= ₹ 37,500 \times 2 \\ X &= \frac{75,000}{4} = ₹ 18,750\end{aligned}$$

Closing Inventory = ₹ 18,750

$$\text{Opening Inventory} = \frac{75,000}{4} \quad 18,750 \times 3 = ₹ 56,250$$

**Q. 79.** From the following information, calculate Inventory Turnover Ratio:

Credit Revenue from Operations ₹ 3,00,000; Cash Revenue from Operations ₹ 1,00,000, Gross Profit 25% of Cost, Closing Inventory was 3 times the Opening Inventory. Opening Inventory was 10% of Cost of Revenue from Operations.

$$\begin{aligned}\text{Ans. Revenue from operation} &= [\text{Cash} + \text{Credit}] \text{ Revenue} \\ &= [3,00,000 + 1,00,000] = ₹ 4,00,000\end{aligned}$$

$$\begin{aligned}
 \text{Gross Profit} &= \frac{\text{Revenue from operation} \times \%}{100 + \%} \\
 &= \frac{4,00,000 \times 25}{100 + 25} \\
 &= ₹ 80,000 \\
 \text{Cost of Revenue} &= ₹ 4,00,000 - 80,000 \\
 &= ₹ 3,20,000 \\
 \text{Opening Inventory} &= \text{Cost of Revenue} \times 10\% \\
 &= ₹ 3,20,000 \times 10\% = ₹ 32,000 \\
 \text{Closing Inventory} &= \text{Opening Inventory} \times 3 \\
 &= 32,000 \times 3 = ₹ 96,000 \\
 \text{Average Inventory} &= \frac{\text{Inventory (Opening + Closing)}}{2} \\
 &= [(32,000 + 96,000)] = ₹ 64,000 \\
 \text{Inventory Turnover Ratio} &= \frac{\text{Cost of Revenue}}{\text{Average Inventory}} \\
 &= \frac{₹ 3,20,000}{64,000} = 5 \text{ times.}
 \end{aligned}$$

**Q. 80. Calculate Inventory Turnover Ratio in each of the following alternative cases:**

**Case 1. Cash Sales 25% of Credit Sales, Credit Sales ₹ 3,00,000, Gross Profit 20% on Revenue from operations, i.e., Net Sales, Closing Inventory ₹ 1,60,000, Opening Inventory ₹ 40,000.**

**Case 2. Cash Sales 20% of Total Sales, Credit Sales ₹ 4,50,000, Gross Profit 25% on Cost, Opening Inventory ₹ 37,500; Closing Inventory ₹ 1,12,500.**

$$\text{Ans. Case 1. Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\begin{aligned}
 \text{Cost of goods sold} &= \text{Net Sales} - \text{Gross Profit} \\
 &= [3,00,000 + (3,00,000 \times 25\%)] - 20\% [3,00,000 + (3,00,000 \times 25\%)] \\
 &= 3,75,000 - 75,000 = 3,00,000
 \end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{3,00,000}{1/2 (1,60,000 + 40,000)} = 3 \text{ times}$$

$$\text{Case 2. Inventory Turnover Ratio} = \frac{\text{Cost of goods sold}}{\text{Average Inventory}}$$

$$\text{Total Sales} = \text{Cash Sales} + \text{Credit Sales}$$

$$\text{Let Total Sales} = x$$

$$x = x \times \frac{20}{100} + 4,50,000$$



$$x - \frac{20x}{100} = 4,50,000$$

$$80x = 4,50,000 \times 100$$

$$x = 5,62,500$$

Total Sales = 5,62,500

Here, Cost of goods sold = 100

Gross Profit = 25

Selling Price = 125

$$\text{Now, Cost of goods sold} = \frac{5,62,500}{125} \times 100$$

$$= 4,50,000$$

$$\text{Inventory Turnover Ratio} = \frac{4,50,000}{1/2 (37,500 + 1,12,500)} = 6 \text{ times}$$

**Q. 81. From the following Statement of Profit and Loss for the year ended 31st March, 2018 of Rex Ltd., Calculate Inventory Turnover Ratio:**

**Statement of Profit and Loss**  
**for the year ended 31st March, 2018**

	Particulars	Note No.	₹
I.	Revenue from Operations (Net Sales)		6,00,000
II.	Expenses:		
	(a) Purchases of Stock-in-Trade		3,00,000
	(b) Change in Inventory of Stock-in-Trade	1	50,000
	(c) Employee Benefit Expenses		60,000
	(d) Other Expenses	2	45,000
	Total Expenses		4,55,000
III.	Profit before Tax (I-II)		1,45,000
IV.	Less: Tax		45,000
V.	Profit after Tax (III-IV)		1,00,000

**Notes to Accounts**

	Particulars	₹
1.	Change in Inventory of Stock-in-Trade	
	Opening Inventory	1,25,000
	Less: Closing Inventory	75,000
		50,000
2.	Other Expenses	
	Carriage Inwards	15,000
	Miscellaneous Expenses	30,000
		45,000

$$\text{Ans. Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$= \frac{₹ 3,65,000}{1,00,000} = 3.65 \text{ times.}$$

$$\begin{aligned} \text{Here, COGS} &= \text{Opening Inventory} + \text{Purchase} + \text{C. Inwards} - \text{Closing Inventory} \\ &= ₹ 1,25,000 + 3,00,000 + 15,000 - 75,000 \\ &= ₹ 3,65,000 \end{aligned}$$

$$\begin{aligned} \text{Average Inventory} &= \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} \\ &= \frac{₹ 1,25,000 + 75,000}{2} = ₹ 1,00,000 \end{aligned}$$

**Q. 82. Credit Revenue from Operations, i.e., Net Credit sales for the year**

Trade Receivable	1,20,000
Bills Receivable	12,000
<b>Calculate Trade Receivable Turnover Ratio</b>	<b>8,000</b>

$$\text{Ans. Trade Receivable Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{1,20,000 + 12,000}{12,000 + 8,000} = \frac{1,32,000}{20,000} = 6.6 \text{ times}$$

**Q. 83. Calculate Trade Receivables Turnover Ratio from the following information.**

	31st March, 2017	31st March, 2018
Sunday Debtors	28,000	25,000
Bill Receivable	7,000	15,000
Provision for Doubtful Debt	2,800	2,500

**Total Sales ₹ 1,00,000, Sales return ₹ 1,500, Cash sales ₹ 23,500.**

**Ans. Trade Receivable Turnover Ratio (DTR)**

$$= \frac{\text{Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{\text{Total Sales} - \text{Sales Returns} - \text{Cash Sales}}{1/2 (\text{Opening Trade Receivable} + \text{Closing Trade Receivable})}$$

$$= \frac{1,00,000 - 1,500 - 23,500}{1/2 (28,000 + 7,000 + 25,000 + 15,000)}$$

$$= \frac{75,000}{37,500} = 2 \text{ times}$$

**Q. 84. Closing Trade Receivables ₹ 1,00,000, Cash Sales being 25% of Credit Sales, Excess of Closing Trade Receivables over Opening Trade Receivables ₹ 40,000 Revenue from operations, i.e., Net Sales ₹ 6,00,000. Calculate the Trade Receivables Turnover Ratio.**

**Ans.** Credit Sales = Total Sales – Cash Sales

$$X = 6,00,000 - X \frac{25}{100}$$

$$X + \frac{25x}{100} = 6,00,000$$

$$\frac{125x}{100} = 6,00,000$$

$$X = \frac{6,00,000 \times 100}{125} = ₹ 4,80,000$$

Average Trade Receivables =  $1/2 (60,000 + 1,00,000) = ₹ 80,000$

Trade Receivables Turnover Ratio =  $\frac{\text{Credit Sales}}{\text{Average Trade Receivables}}$

$$= \frac{4,80,000}{80,000} = 6 \text{ times}$$

**Q. 85. Compute Trade Receivables Turnover ratio from the following:**

	31st March, 2017 (₹)	31st March, 2018 (₹)
(Revenue from Operations) or Net Sales	8,00,000	7,00,000
Debtors in the beginning of year	83,000	1,17,000
Debtor at the end of year	1,17,000	83,000
Sales Return	1,00,000	50,000

**Ans.** Trade Receivables Turnover Ratio =  $\frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$

$$\text{For 2017} = \frac{8,00,000}{1/2(83,000 + 1,17,000)} = \frac{8,00,000}{1,00,000} = 8 \text{ times}$$

$$\text{For 2018} = \frac{7,00,000}{1/2(1,17,000 + 83,000)} = \frac{7,00,000}{1,00,000} = 7 \text{ times}$$

**Q. 86.** 1,75,000 is the net sales (i.e., Revenue from Credit Sales) of an enterprise. If trade receivables turnover ratio is 8 times, calculate trade receivables in the beginning and at the end of the year. Trade Receivables at the end is ₹7,000 more than that in the beginning.

$$\text{Ans. Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$\text{or,} \quad 8 = \frac{1,75,000}{\text{Average Trade Receivable}}$$

$$\text{Average Trade Receivables} = \frac{1,75,000}{8} = 21,875$$

Let  $1/2$  (Opening Trade Receivables + Closing Trade Receivables) = 21,875

Let Opening Trade Receivables = X

Then, Closing Trade Receivables = X + 7,000

$$\text{Now,} \quad \frac{X + X + 7,000}{2} = 21,875$$

$$2X = 43,750 - 7,000$$

$$X = \frac{36,750}{2} = 18,375$$

Opening Trade Receivables = ₹ 18,375

Closing Trade Receivables = 18,375 + 7,000 = ₹ 25,375

**Q. 87.** From the following particulars, determine the Trade Receivables Turnover Ratio.

	(₹)
Net Sales Revenue from Operations	10,00,000
Credit sales (Credit Revenue from Operations)	8,00,000
Trade Receivables	1,00,000

$$\text{Ans. Debtors Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{8,00,000}{1,00,000} = 8 \text{ times}$$

**Q. 88.** Closing Trade Receivables ₹ 4,00,000, Cash Sales being 25% of Credit Sales, excess of Closing Trade Receivables over Opening Trade Receivables ₹ 2,00,000. Net Sales ₹ 15,00,000. Calculate Trade Receivables Turnover Ratio.

**Ans.** Credit Sales = Total Sales - Cash Sales

$$X = 15,00,000 - X \times \frac{25}{100}$$

$$X + \frac{25x}{100} = 15,00,000$$

$$\frac{25x}{100} = 15,00,000$$

$$X = \frac{15,00,000 \times 100}{125} = ₹ 12,00,000$$

$$\text{Average Trade Receivables} = 1/2 (2,00,000 + 4,00,000) = ₹ 3,00,000$$

$$\begin{aligned} \text{Trade Receivables Turnover Ratio} &= \frac{\text{Credit Sales}}{\text{Average Trade Receivables}} \\ &= \frac{12,00,000}{3,00,000} = 4 \text{ times} \end{aligned}$$

**Q. 89.** A firm normally has Trade Receivables equal to two month's credit sales. During the coming years it expects credit sales of ₹7,20,000 spread evenly over the year (12 months). What is the estimated amount of Trade Receivables at the end of the year?

$$\text{Ans. Net credit sales per month} = \frac{7,20,000}{12} = ₹ 60,000$$

$$\text{Trade Receivables at the end of the year} = 60,000 \times 2 = ₹ 1,20,000$$

**Q. 90.** A limited company made credit sales of ₹4,00,000 during the financial period. If the collection period is 36 days and year is assumed to be 360 days, calculate the:

(i) Trade Receivables Turnover Ratio

(ii) Average Trade Receivables

(iii) Trade Receivables at the end when trade receivables at the end are more than that in the beginning by ₹6,000.

$$\text{Ans. (i) Trade Receivables Turnover Ratio} = \frac{360 \text{ days}}{36 \text{ days}} = 10 \text{ times}$$

$$\begin{aligned} \text{(ii) Average Trade Receivables} &= \frac{\text{Credit Sales}}{\text{Trade Receivables Turnover Ratio}} \\ &= \frac{4,00,000}{10} = ₹ 40,000 \end{aligned}$$

(iii)  $1/2 (\text{Opening Trade Receivables} + \text{Closing Trade Receivables}) = \text{Average Trade Receivables}$

$$X + X + 6,000 = 2 \times 40,000$$

$$2X = 80,000 - 6,000$$

$$X = \frac{74,000}{2} = ₹ 37,000$$

$$\text{Closing Trade Receivables} = X + 6,000 = ₹ 37,000 + 6,000 = ₹ 43,000.$$

**Q. 91. Cash Sales ₹ 2,00,000, Cost of Goods Sold ₹ 3,50,000, Gross Profit ₹ 1,50,000, Trade Receivables Turnover Ratio 3 times. Calculate opening and closing Trade receivables in each of the following alternative cases.**

**Case 1. If closing Trade Receivables were ₹ 1,00,000 in excess of opening Trade Receivables.**

**Case 2. If Trade Receivables at the end were 3 times than in the beginning.**

**Case 3: If Trade Receivables at the end were 3 times more than that in the beginning.**

**Ans. Case 1. Let Opening Trade Receivables = X**

**Then, Closing Trade Receivables = X + 1,00,000**

**Thus, Average Trade Receivables =  $\frac{1}{2} (X + X + 1,00,000)$**   
**= X + 50,000**

**Net Credit Sales = Cost of Goods Sold + Gross Profit – Cash Sales**  
**= ₹ 3,50,000 + 1,50,000 – 2,00,000 = ₹ 3,00,000**

**Trade Receivables Turnover Ratio =  $\frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$**

$$3 = \frac{\text{₹ 3,00,000}}{(X+50,000)}$$

$$3(x + 50,000) = 3,00,000$$

$$x = \frac{3,00,000}{3} - 50,000$$

$$\begin{aligned} X &= \text{Opening Trade Receivables} \\ &= \text{₹ 1,00,000} - 50,000 \\ &= 50,000 \end{aligned}$$

**∴ Closing Trade Receivables = 50,000 + 1,00,000 = 1,50,000**

**Case 2. Let Opening Trade Receivables = X. Then, Closing Trade Receivables = 3X.**

**Thus, Average Trade Receivables =  $\frac{1}{2} (X + 3X) = 2X$**

**Net Credit Sales = Cost of Goods sold + Gross profit – Cash Sales**  
**= ₹ 3,50,000 + ₹ 1,50,000 – 2,00,000 = ₹ 3,00,000**

**Trade Receivables Turnover Ratio =  $\frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$**

$$3 = \frac{3,00,000}{2X}$$

$$3 = \frac{1,50,000}{X}$$

$X = \text{Opening Trade Receivables}$

$$= \frac{1,50,000}{3} = ₹ 50,000$$

Closing Trade Receivables =  $3 \times 50,000 = ₹ 1,50,000$

Case 3. Let Opening Trade Receivables =  $X$ . Then, Closing Trade Receivables =  $X$   
 $3X = 4X$ .

Thus, Average Trade Receivables =  $1/2 (X + 4X) = 2.5 X$

$$\begin{aligned}\text{Net Credit Sales} &= \text{Cost of Goods Sold} + \text{Gross Profit} - \text{Cash Sales} \\ &= ₹ 3,50,000 + 1,50,000 - 2,00,000 = ₹ 3,00,000\end{aligned}$$

$$\text{Trade Receivables Turover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$3 = \frac{3,00,000}{2.5X}$$

$$3 = \frac{1,20,000}{X}$$

$X = \text{Opening Trade Receivables}$

$$= \frac{1,20,000}{3} = ₹ 40,000$$

$4X = \text{Closing Trade Receivables}$

$$= 4 \times 40,000 = ₹ 1,60,000$$

**Q. 92.** From the following information opening and closing trade receivables, if trade receivables turnover ratio is 3 times:

- (i) Cash revenue from operation is  $1/3$  of credit revenue from operation.
- (ii) Cost of revenue from operation is ₹ 3,00,000.
- (iii) Gross profit is 25% of the revenue from operation.
- (iv) Trade receivables at the end are 3 times more than that of in the beginning.

$$\text{Ans. Rev. from operations} = \frac{\text{Cost of Revenue} \times 100}{100 - \% \text{profit}}$$

$$= \frac{3,00,000 \times 100}{100 - 25\%}$$

$$= ₹ 4,00,000$$

Let Credit Revenue =  $x$

than Cash Revenue =  $x \times (1/3) = x/3$

So,  $x + (x/3) = 4,00,000$

$$x = 4,00,000 \times (3/4) = ₹ 3,00,000$$

$$\begin{aligned}\text{Now, Av. Trade Recei.} &= \frac{\text{Credit Revenue}}{\text{T. Recei. Turnover Ratio}} \\ &= \frac{3,00,000}{3} = ₹ 1,00,000\end{aligned}$$

$$\begin{aligned}\text{Let Opening T. Rece.} &= x \\ \text{than Closing Rece.} &= x + 3x = 4x\end{aligned}$$

$$\text{So, Av. Recei.} = \frac{x + x + 3x}{2}$$

$$\frac{5x}{2} = 1,00,000$$

$$x = 1,00,000 \times (2/5) = ₹ 40,000$$

$$\begin{aligned}\text{Closing Receivables} &= 4 \times 40,000 \\ &= ₹ 1,60,000\end{aligned}$$

**Q. 93. Calculate Trade Receivables Turnover Ratio in each of the following alternative cases:**

**Case 1. Net Credit Sales ₹ 4,00,000, Average Trade Receivables ₹ 1,00,000.**

**Case 2. Net Sales ₹ 30,00,000, Cash Sales ₹ 6,00,000, Opening Trade Receivables ₹ 2,00,000, Closing Trade Receivables ₹ 6,00,000.**

**Case 3. Cost of Goods Sold ₹ 3,00,000, Gross Profit on Cost 25%, Cash Sales 20% of Total Sales, Opening Trade Receivables ₹ 50,000, Closing Trade Receivables ₹ 1,00,000.**

**Case 4. Cost of Goods Sold ₹ 4,50,000 Gross Profit on Sales 20%, Cash Sales 25% of Net-Credit Sales, Opening Trade Receivables ₹ 90,000, Closing Trading Receivables ₹ 60,000.**

**Ans. Case 1. Trade Receivables Turnover Ratio**

$$= \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{4,00,000}{1,00,000} = 4 \text{ times}$$

$$\begin{aligned}\text{Case 2. Net Credit Sales} &= \text{Net Sales} - \text{Cash Sales} \\ &= ₹ 30,00,000 - ₹ 6,00,000 = ₹ 24,00,000\end{aligned}$$

**Average Trade Receivables**

$$= \frac{(\text{Opening Trade Receivables} + \text{Closing Trade Receivable})}{2}$$

$$= \frac{(2,00,000 + 6,00,000)}{2} = ₹ 4,00,000$$



$$\text{Trade Receivables Turover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{24,00,000}{4,00,000} = 6 \text{ times}$$

**Case 3.**       $\text{Total Sales} = \text{Cost of Goods Sold} + \text{Gross Profit}$   
 $= 3,00,000 + 300,000 \times 25\% = ₹ 3,75,000$   
 $\text{Cash Sales} = \text{Total Sales} \times 20\% = ₹ 3,75,000 \times 20\%$   
 $= ₹ 75,000$   
 $\text{Net Credit Sales} = \text{Total Sales} - \text{Cash Sales}$   
 $= ₹ 3,75,000 - 75,000 = ₹ 3,00,000$

Average Trade Receivables

$$= \frac{\text{Opening Trade Recivables} + \text{Closing Trade Receivables}}{2}$$

$$= \frac{(50,000 + 1,00,000)}{2} = ₹ 75,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{3,00,000}{75,000} = 4 \text{ times}$$

**Case 4.**       $\text{Total Sales} = \text{Cost of Goods Sold} + \text{Gross Profit}$

$$X(\text{let}) = ₹ 4,50,000 \frac{20x}{100} = ₹ 4,50,000 + \frac{x}{5}$$

$$x - \frac{x}{5} = ₹ 4,50,000$$

$$4X = ₹ 4,50,000 \times 5 = ₹ 22,50,000$$

$$\text{Total Sales} = X = \frac{₹ 22,50,000}{4} = ₹ 5,62,500$$

$$\text{Net Credit Sales} = \text{Total Sales} - \text{Cash Sales}$$

$$X(\text{let}) = ₹ 5,62,500 - \frac{25x}{100}$$

$$x = 5,62,500 - \frac{x}{4}$$

$$x + \frac{x}{4} = ₹ 5,62,500$$

$$\text{Net Credit Sales} = X = \frac{₹ 5,62,500 \times 4}{5} = ₹ 4,50,000$$

Average Trade Receivables

$$= \frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$$

$$= \frac{(90,000 + 60,000)}{2} = ₹ 75,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$= \frac{4,50,000}{75,000} = 6 \text{ times}$$

**Q.94.** From the information given below; calculate Trade Receivables Turnover Ratio. Credit Sales ₹ 8,00,000; Opening trade Receivables ₹ 1,20,000 and Closing trade Receivables ₹ 2,00,000.

State giving reason, which of the following would increase, decrease or not change the trade receivables Turnover Ratio:

- (i) Collection from trade Receivables ₹ 40,000
- (ii) Credit Sales ₹ 80,000
- (iii) Sales return ₹ 20,000
- (iv) Credit Purchase ₹ 1,60,000

$$\text{Ans. Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

Average Trade Receivables

$$= \frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2}$$

$$= \frac{1,20,000 + 2,00,000}{2} = 1,60,000$$

$$\text{Trade Receivables Turnover} = \frac{\text{Net Credit Sales}}{\text{Av. Trade Receivables}}$$

$$= \frac{₹ 8,00,000}{1,60,000} = 5 \text{ times}$$

Statement showing effects of following transaction on trade receivables turnover ratio.

Case	Effect	Reasons
(i)	Increase	Because closing and average trade receivables will decrease
(ii)	Decrease	Because credit sales and closing trade receivables will increase by same amount.
(iii)	Increase	Because credit sales and closing trade receivables will decrease by same amount.
(iv)	Not change	Because neither credit sales nor trade receivables will effect by the transaction.

**Q. 95. Calculate Trade Payables Turnover Ratio and Average Debt Payment Period from the following information.**

	1st April, 2017 (₹)	31st March 2018 (₹)
Sundry Creditors	1,50,000	4,50,000
Bills Payable	50,000	1,50,000
Total Purchase ₹ 21,00,000, Purchases Return ₹ 1,00,000, Cash Purchase ₹ 4,00,000.		

$$\text{Ans. Trade Payables Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Paybles}}$$

$$\begin{aligned} \text{Net Credit Purchases} &= \text{Purchase} - \text{Cash Purchase} - \text{Purchase Return} \\ &= 21,00,000 - 4,00,000 - 1,00,000 = 16,00,000 \end{aligned}$$

$$\begin{aligned} \text{Average Payables} &= \frac{(\text{Opening Trade Payable}) + (\text{Closing Trade Payable})}{2} \\ &= \frac{(1,50,000 + 50,000) + (4,50,000 + 1,50,000)}{2} \\ &= \frac{2,00,000 + 6,00,000}{2} = 4,00,000 \end{aligned}$$

$$\text{Trade Payables Turnover Ratio} = \frac{16,00,000}{4,00,000} = 4 \text{ times}$$

$$\text{Average Debt Payment Period} = \frac{12 \text{ month}}{\text{Credit Turnover Ratio}} = \frac{12}{4} = 3 \text{ months}$$

**Q. 96. Calculate Trade Payables Turnover Ratio from the following information:**  
Opening Creditors ₹ 1,25,000; Opening Bills Payable ₹ 10,000; Closing Creditors ₹ 90,000; Closing Bills Payable ₹ 5,000; Purchases ₹ 9,50,000; Cash Purchases ₹ 1,00,000; Purchases Return ₹ 45,000.

$$\text{Ans. Trade Payable Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Paybles}}$$

$$= ₹ \frac{8,05,000}{1,15,000} = 7 \text{ times}$$

$$\begin{aligned} \text{Here Net Credit Purchase} &= \text{Purchase} - \text{Cash Purchase} - \text{Purchase Return} \\ &= ₹ 9,50,000 - (1,00,000 + 45,000) \\ &= ₹ 8,05,000 \end{aligned}$$

$$\begin{aligned} \text{Average Payables} &= \frac{\text{Opening (Creditor + B/P)} + \text{Closing (Creditors + B/P)}}{2} \\ &= \frac{₹ (1,25,000 + 10,000) + (90,000 + 5,000)}{2} \\ &= ₹ 1,15,000 \end{aligned}$$

**Q. 97. Calculate Trade Payables Turnover Ratio for the year 2017-18 in each of the alternative cases:**

**Case 1. Closing Trade Payables ₹ 45,000; Net Purchases ₹ 3,60,000; Purchases Return ₹ 60,000; Cash Purchases ₹ 90,000.**

**Case 2. Opening Trade Payables ₹ 15,000; Closing Trade Payables ₹ 45,000; Net Purchases ₹ 3,60,000.**

**Case 3. Closing Trade Payables ₹ 45,000; Net Purchases ₹ 3,60,000.**

**Case 4. Closing Trade Payables (including ₹ 25,000 due to a supplier of machinery) ₹ 55,000; Net Credit Purchases ₹ 3,60,000.**

$$\text{Ans. Trade Payables Turnover Ratio} = \frac{\text{Credit Purchase}}{\text{Average Trade Payables}}$$

$$\begin{aligned} \text{Case 1. Credit Purchases} &= \text{Net Purchases} - \text{Cash Purchases} \\ &= 3,60,000 - 90,000 = ₹ 2,70,000 \\ \text{Average trade payable} &= ₹ 45,000 \end{aligned}$$

$$\text{Trade Payables Turnover Ratio} = \frac{2,70,000}{45,000} = 6 \text{ times}$$

$$\text{Case 2. Credit Purchases} = ₹ 3,60,000$$

$$\text{Average trade payables} = \frac{(15,000 + 45,000)}{2} = ₹ 30,000$$

$$\text{Trade Payables Turnover Ratio} = \frac{3,60,000}{30,000} = 12 \text{ times}$$

$$\text{Case 3. Credit Purchases} = ₹ 3,60,000$$

$$\text{Average trade payables} = ₹ 45,000$$

$$\text{Trade Payables Turnover Ratio} = \frac{3,60,000}{45,000} = 8 \text{ times}$$

**Case 4. Credit Purchases = ₹ 3,60,000**

**Average trade payables = ₹ 30,000**

$$\text{Trade Payables Turnover Ratio} = \frac{3,60,000}{30,000} = 12 \text{ times}$$

**Q. 98. From the following information, calculate Working Capital Turnover Ratio:**

	(₹)
<b>Cost of Goods Sold or Cost of Revenue from Operations</b>	<b>10,00,000</b>
<b>Current Assets</b>	<b>5,00,000</b>
<b>Current Liabilities</b>	<b>3,00,000</b>

$$\begin{aligned}\text{Ans. Working Capital Turnover Ratio} &= \frac{\text{Cost of Goods Sold}}{\text{Working Capital}} \\ &= \frac{₹10,00,000}{2,00,000} = 5 \text{ times}\end{aligned}$$

$$\begin{aligned}\text{Here, Working Capital} &= \text{C/Assets} - \text{C/Liabilities} \\ &= ₹ 5,00,000 - ₹ 3,00,000 \\ &= ₹ 2,00,000\end{aligned}$$

**Q. 99. Revenue from Operations: Cash Sales ₹ 5,00,000; Credit Sales ₹ 6,00,000; Sales Return ₹ 1,00,000. Current Assets ₹ 3,00,000; Current Liabilities ₹ 1,00,000. Calculate Working Capital Turnover Ratio.**

$$\begin{aligned}\text{Ans. Working Capital Turnover Ratio} &= \frac{\text{Revenue from Operation}}{\text{Working Capital}} \\ &= \frac{₹ 10,00,000}{2,00,000} = 5 \text{ times}\end{aligned}$$

$$\begin{aligned}\text{Here, Revenue from Operation} &= \text{Cash Sales} + \text{Credit Sales} - \text{Sales Return} \\ &= ₹ 5,00,000 + ₹ 6,00,000 - 1,00,000 \\ &= ₹ 10,00,000\end{aligned}$$

$$\begin{aligned}\text{working Capital} &= \text{Current Asset} - \text{Current Liabilities} \\ &= ₹ 3,00,000 - 1,00,000 \\ &= ₹ 2,00,000\end{aligned}$$

**Q.100. Equity Share Capital ₹ 15,00,000; Gross Profit on Revenue from Operations, i.e., Net Sales  $33\frac{1}{3}\%$ ; Cost of Goods Sold or Cost of Revenue from Operations ₹ 20,00,000; Current Assets ₹ 10,00,000; Current Liabilities ₹ 2,50,000. Calculate Working Capital Turnover Ratio.**

$$\begin{aligned}\text{Ans. Working Capital Turnover Ratio} &= \frac{\text{Net Sales}}{\text{Working Capital}} \\ &= \frac{\text{₹ } 30,00,000}{7,50,000} = 4 \text{ times}\end{aligned}$$

$$\begin{aligned}\text{Here, Net Sales} &= \text{COGS} + \text{Gross profit} \\ &= \text{₹ } 20,00,000 + \left[ 20,00,000 \times \frac{3}{2} \times \frac{1}{3} \right] \\ &= \text{₹ } 30,00,000 - 10,00,000 \\ \text{Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\ &= \text{₹ } 10,00,000 - 2,50,000 \\ &= \text{₹ } 7,50,000\end{aligned}$$

**Q.101. Gross Profit at 25% on cost, Gross Profit ₹ 5,00,000; Equity Share Capital ₹ 10,00,000; Reserves and Surplus ₹ 2,00,000; Long-term Loan ₹ 3,00,000; Fixed Assets (Net) ₹ 10,00,000. Calculate Working Capital Turnover Ratio.**

$$\begin{aligned}\text{Ans. Working Capital Turnover Ratio} &= \frac{\text{Net Sales}}{\text{Working Capital}} \\ &= \frac{\text{₹ } 25,00,000}{5,00,000} = 5 \text{ times}\end{aligned}$$

$$\begin{aligned}\text{Here, Net Sales} &= \text{COGS} + \text{Gross profit.} \\ &= \text{₹ } \left( 5,00,000 \times \frac{100}{25} \right) + 5,00,000 \\ &= \text{₹ } 25,00,000 \\ \text{Working Capital} &= \text{Equity Share Capital} + \text{Res. and surp.} + \text{Long term Loan} - \text{Fixed Assets} \\ &= \text{₹ } (10,00,000 + 2,00,000 + 3,00,000) - 10,00,000 \\ &= \text{₹ } 5,00,000\end{aligned}$$

**Q.102. Capital Employed ₹ 12,00,000; Net Fixed Assets ₹ 8,00,000; Cost of Goods Sold or Cost of Revenue from Operations ₹ 40,00,000; Gross Profit is 20% on Cost. Calculate Working Capital Turnover Ratio.**

$$\begin{aligned}\text{Ans. Working Capital} &= \text{Capital Employed} - \text{Net Fixed Assets} \\ &= \text{₹ } 12,00,000 - 8,00,000 = \text{₹ } 4,00,000 \\ \text{Sales} &= \text{Cost of Goods Sold} + \text{Gross Profit} \\ &= \text{₹ } 40,00,000 + \frac{40,00,000 \times 20}{100} = \text{₹ } 48,00,000\end{aligned}$$

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Working Capital}}$$

$$= \frac{48,00,000}{4,00,000} = 12 \text{ times.}$$

**Q.103. Calculate working Capital Turnover Ratio from the following information Revenue from operation ₹30,00,000, Current Assets ₹12,50,000, Total Assets ₹ 20,00,000, Non-Current Liabilities ₹ 10,00,000, Shareholders Fund ₹ 5,00,000.**

$$\text{Ans. Working Capital Turnover Ratio} = \frac{\text{Rev. from operation}}{\text{Working Capital}}$$

$$= \frac{₹ 30,0,000}{7,50,000} = 4 \text{ times}$$

$$\begin{aligned} \text{Here working capital} &= C/\text{Assets} - C/\text{Liability} \\ &= 12,50,000 - 5,00,000 \\ &= ₹ 7,50,000 \end{aligned}$$

$$\begin{aligned} C/\text{Liability} &= T/\text{Assets} - (\text{Non-C/Liab.} + \text{Share Fund}) \\ &= ₹ 20,00,000 - (10,00,000 + 5,00,000) \\ &= ₹ 5,00,000 \end{aligned}$$

**Q.104. Compute Gross Profit Ratio from the following information. Cost of Revenue from Operations or Cost of Goods Sold ₹5,40,000; Revenue from Operations (Net Sales) ₹6,00,000.**

$$\begin{aligned} \text{Ans. Gross Profit Ratio} &= \frac{\text{Rev. from operation} - \text{Cost of Rev.}}{\text{Rev. from operation}} \times 100 \\ &= \frac{6,00,000 - 5,40,000}{6,00,000} \times 100 = \frac{60,000}{6,00,000} \times 100 \\ &= 10\% \end{aligned}$$

**Q.105. From the following, calculate the Gross Profit Ratio:**

	(₹)
Gross Profit	50,000
Net Sale	5,00,000
Sale Return	50,000

$$\begin{aligned} \text{Ans. Gross Profit Ratio} &= \frac{\text{Gross Profit} \times 100}{\text{Net Sale}} \\ &= \frac{50,000 \times 100}{5,50,000 - 50,000} = \frac{50,00,000}{5,00,000} = \frac{50}{5} = 10\% \end{aligned}$$

**Q. 106. Compute Gross Profit Ratio from the following information Sales = ₹ 4,00,000 and Gross Profit 25% on Cost.**

$$\begin{aligned} \text{Ans. Gross Profit} &= 25\% \text{ on cost} = 20\% \text{ on sales} \\ &= ₹ 4,00,000 \times 20\% = ₹ 80,000 \end{aligned}$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit} \times 100}{\text{Net Sales}}$$

$$= \frac{80,000 \times 100}{4,00,000} = 20\%$$

**Q.107. Calculate Gross Profit Ratio from the following data:**

**Cash Sales are 20% of Total Sales; Credit Sales are ₹ 5,00,000; Purchases are ₹ 4,00,000; Excess of Closing Inventory over Opening Inventory ₹ 25,000.**

$$\begin{aligned} \text{Ans. Gross Profit Ratio} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 \\ &= \frac{\text{₹ } 2,50,000}{6,25,000} \times 100 = 40\% \end{aligned}$$

Here, Net Sales = Cash Sales + Credit Sales

$$\begin{aligned} &= \text{₹} \left( 5,00,000 \times \frac{100}{80} \times \frac{20}{100} \right) + 5,00,000 \\ &= \text{₹ } 1,25,000 + 5,00,000 \\ &= \text{₹ } 6,25,000 \end{aligned}$$

$$\begin{aligned} \text{Gross Profit} &= \text{Total Net Sales} - \text{COGS} \\ &= \text{₹ } 6,25,000 - [4,00,000 + 25,000 - 50,000] \\ &= \text{₹ } 2,50,000 \end{aligned}$$

**Q.108. From the following information, calculate Gross Profit Ratio:**

	₹		₹
Credit Sales	5,00,000	Decrease in Inventory	10,000
Purchases	3,00,000	Return Outward	10,000
Carriage Inwards	10,000	Wages	50,000
		Rate of Cash Sales to Credit Sale	4 : 1

$$\begin{aligned} \text{Ans. Gross Profit Ratio} &= \frac{\text{Gross Profit}}{\text{Revenue from Operation}} \times 100 \\ &= \frac{\text{₹ } 2,65,000}{6,25,000} \times 100 = 42.4\% \end{aligned}$$

Here, Revenue from Operation = Credit Sales + Cash Sales

$$\begin{aligned} &= \text{₹ } 5,00,000 + \left( 5,00,000 \times \frac{1}{4} \right) \\ &= \text{₹ } 6,25,000 \end{aligned}$$

$$\begin{aligned} \text{COGS} &= \text{Net purchase} + \text{Change in Inventory} + \text{Direct Expenses} \\ &= \text{₹ } [3,00,000 - 10,000] + 10,000 + [10,000 + 50,000] \\ &= \text{₹ } 2,90,000 + 10,000 + 60,000 \\ &= \text{₹ } 3,60,000 \end{aligned}$$

$$\begin{aligned} \text{Gross Profit} &= \text{Revenue from Operation} - \text{COGS} \\ &= 6,25,000 - 3,60,000 = \text{₹ } 2,65,000 \end{aligned}$$