

Analysis of Financial Statements

EXERCISE - 9 [PAGE 375]

Exercise - 9 | Q 1 | Page 375

Select the most appropriate alternative from the given below and rewrite the sentence

Gross Profit Ratio indicates the relationship of gross profit to the_____.

1. Net-Cash
2. **Net-Sales**
3. Net Purchases
4. Gross Sales

Solution: Gross Profit Ratio indicates the relationship of gross profit to the Net-Sales.

Exercise - 9 | Q 2 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

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

1. Quick Assets
2. Quick Liabilities
3. **Current Assets**
4. None of these

Solution: Current Ratio = "Current Assets"/"Current Liabilities"

Exercise - 9 | Q 3 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

Liquid Assets = _____

1. Current Assets + Stock
2. **Current Assets - Stock**
3. Current Assets - stock + prepaid Expenses

4. None of these

Solution: Liquid Assets = Current assets – Stock

Exercise - 9 | Q 4 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

Cost of goods sold _____

1. **Sales - Gross profit**
2. Sales - Net Profit
3. Sales Proceeds
4. None of these

Solution: Cost of goods sold sales – Gross profit

Exercise - 9 | Q 5 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

Net-Profit Ratio is equal to _____

1. **Operating ratio**
2. Operating net-profit ratio
3. Gross Profit Ratio
4. Current Ratio

Solution: Net-Profit Ratio is equal to Operating ratio.

Exercise - 9 | Q 6 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

The Common Size Statement requires _____

1. **Common base**
2. Journal Entries
3. Cash Flow
4. Current Ratio

Solution: The Common Size Statement requires Common base.

Exercise - 9 | Q 7 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

Bill Payable is_____

1. Long term loan
- 2. Current Liabilities**
3. Liquid Assets
4. Net Loss

Solution: Bill Payable is **current Liabilities.**

Exercise - 9 | Q 8 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

Generally Current Ratio should be_____

- 1. 2:1**
2. 1:1
3. 1:2
4. 3:1

Solution: Generally Current Ratio should be **2:1**

Exercise - 9 | Q 9 | Page 375

Select the most appropriate alternative from those given below and rewrite the sentence

From financial statement analysis the creditors are specially interested to know_____

- 1. Liquidity**
2. Profits
3. Sale
4. Share Capital

Solution: From financial statement analysis, the creditors are specially interested to know **Liquidity**

EXERCISE - 9 [PAGES 375 - 376]

Exercise - 9 | Q 1 | Page 375

Give one word/term/phrase for the following statement.

The statement showing profitability of two different periods

Solution: The statement showing profitability of two different periods - **Comparative Income Statement.**

Exercise - 9 | Q 2 | Page 375

Give one word/term/phrase for the following statement.

The ratio measures the relationship between Gross Profit and Net Sales.

Solution: The ratio measures the relationship between Gross Profit and Net Sales. - **Gross Profit Ratio**

Exercise - 9 | Q 3 | Page 375

Give one word/term/ phrase for the following statement

Critical evaluation of financial statement to measure profitability.

Solution: Critical evaluation of financial statement to measure profitability. - **Analysis of financial statement**

Explanation: It is the process of analysing the business results and the efficiency of the business via various tools. Analysis of financial statement provides an insight into the efficiency with which a business is operating, what is the profitability and what is the present financial position of the business. It facilitates comparison of business results of different firms and over the years.

Exercise - 9 | Q 4 | Page 375

Give one word/term/ phrase for the following statement

A particular mathematical number showing relationship between two accounting figures.

Solution: A particular mathematical number showing relationship between two accounting figures. - **Accounting Ratio**

Explanation: Accounting ratio expresses the relationship between two accounting variables. It is one amongst the various tools available for financial analysis. Financial ratios are calculated from the financial statements to derive conclusions regarding liquidity, profitability and solvency of a business. They are used to measure the

efficiency and profitability of a company based on the financial reports prepared by the business. They facilitate the decision-making task of the management.

Exercise - 9 | Q 5 | Page 375

Give one word/term/ phrase for the following statement.

An asset which can be converted into cash immediately.

Solution: An asset which can be converted into cash immediately. - **Liquid Asset**

Explanation: Those assets of the business that can be converted into cash immediately are known as liquid assets. They are highly liquid in nature and are also known as quick assets.

Exercise - 9 | Q 6 | Page 375

Give one word/term/phrase for the following statement.

The ratio measuring the relationship between net profit and ownership capital employed.

Solution: The ratio measuring the relationship between net profit and ownership capital employed. - **ROCE**

Exercise - 9 | Q 7 | Page 375

Give one word/term/phrase for the following statement.

The statement showing financial position for different periods of previous year and current year.

Solution: The statement showing financial position for different periods of previous year and current year. - **Comparative Balance Sheet**

Exercise - 9 | Q 8 | Page 376

Give one word/term/phrase for the following statement.

Statement showing changes in cash and cash equivalent during a particular period.

Solution: Statement showing changes in cash and cash equivalent during a particular period. - **Cash Flow Statement**

Exercise - 9 | Q 9 | Page 376

Give one word/term/phrase for the following statement.

Activity related to acquisition of long term assets and investment.

Solution: Activity related to acquisition of long term assets and investment .- **Financing Activities**

Exercise - 9 | Q 10 | Page 376

Give one word/term/phrase for the following statement.

The ratio that establishes relationship between Quick Assets and Current Liabilities

Solution: The ratio that establishes relationship between Quick Assets and Current Liabilities - **Liquid Ratio**

EXERCISE - 9 [PAGE 376]

Exercise - 9 | Q 1 | Page 376

State true or false with reason.

Financial Statement includes only Balance Sheet.

1. True
2. **False**

Solution: This statement is False.

Financial statements includes Balance Sheet and Profft and Loss A/c. This is because financial statements are prepared by business organisations to find out efficiency, solvency, profitability, growth, strength and status of the business. For this they need information from balance sheet as well as from Profit and Loss A/c.

Exercise - 9 | Q 2 | Page 376

State whether following statement is true or false :

Analysis of financial statement is a tool but not a remedy.

1. **True**
2. False

Solution: True

Explanation: Financial statements record financial transactions. However, the process of reviewing and drawing conclusions by evaluating Balance sheet and Profit and Loss Account is done through the analysis of financial statements. It is not a remedy; rather, it is a tool to evaluate results of business and helps in decision-making activity of the

management. Analysis of financial statement gives the management an insight into the business and helps them in taking rational decisions.

Exercise - 9 | Q 3 | Page 376

State true or false with reason.

Purchase of Fixed Assets is operating cash flow.

1. True

2. **False**

Solution: This statement is False.

Purchase of fixed assets is cash flow from investing activities. It is not a day to day operations activities like office/selling/distribution finance expenses/activities.

Exercise - 9 | Q 4 | Page 376

State true or false with reason.

Dividend paid is not a source of fund

1. **True**

2. False

Solution: This statement is True.

Dividend is always paid on shares issued by a company is an expense. Shares itself is a source of fund. In payment of dividend cash goes out from the company. It is an out flow of cash and not a source of fund.

Exercise - 9 | Q 5 | Page 376

State true or false with reason.

Gross profit depends upon not sales.

1. True

2. **False**

Solution: False.

Explanation:

Gross profit is ascertained by preparing a Trading Account. In this account, all the direct costs incurred are deducted from the net sales (sales less sales return), i.e. revenue, to arrive at gross profit. Hence, it is correct to say that gross profit depends on net sales.

Exercise - 9 | Q 6 | Page 376

State true or false with reason.

Payment of cash against purchase of stock is use of fund.

1. True

2. False

Solution: This statement is True.

Cash payment for purchase of stock is made from cash balance or/and from bank balance which is a part of business fund. When stock or materials we purchase we use cash for payment.

Exercise - 9 | Q 7 | Page 376

State whether following statement is true or false.

Ratio Analysis is useful for inter-firm comparison.

1. True

2. False

Solution: True

Explanation: Ratio analysis helps an organisation to compare the results of the business with other firms, industries and also helps in appraising the progress and growth of the organisation over the years. It facilitates comparison and helps in determining whether the business is doing better than other firms and if it is not, what are the improvement areas and the reasons for them.

Exercise - 9 | Q 8 | Page 376

State true or false with reason.

The short term deposits are considered as cash equivalent.

1. True

2. False

Solution: This statement is True.

The short-term deposits are liquid assets. It means deposits kept for some period (usually less than one year) and they are kept with an intention to get money quickly as and when required. They are as good as cash and considered as cash equivalent

Exercise - 9 | Q 9 | Page 376

State true or false with reason.

Activity Ratios Turnover Ratios are the same.

1. True

2. False

Solution: This statement is True.

Turnover ratio is an efficiency ratio to check how efficiently company is using different assets to extract earnings from them. Activity ratio are financial analysis tools used to measure a business ability to convert its assets into cash. From both these definitions we can say that Activity ratios and Turnover ratios are same.

Exercise - 9 | Q 10 | Page 376

State true or false with reason.

Current Ratio measures the liquidity of the business.

1. True

2. False

Solution: This statement is True.

Current ratio shows relation between current assets and current liabilities. If the proportion of current assets is higher than current liabilities, liquidity position of business entity is considered good. More liquidity means more short-term solvency. From the above it is proved that current ratio measures the liquidity of the business.

Exercise - 9 | Q 11 | Page 376

State true or false with reason.

Ratio analysis measures profitability efficiency and financial soundness of the business.

1. True

2. False

Solution: This statement is True.

With the help of profitability ratios (Gross profit, Net profit and Operating profit) one can get the idea of profitability efficiency of the firm and with the help of liquidity ratios (Current ratio and liquid ratio) one can get the idea of solvency or financial soundness of the business.

Exercise - 9 | Q 12 | Page 376

State true or false with reason.

Usually current ratio should be 3:1.

1. True

2. False

Solution: This statement is False.

Usually current ratio should be 2:1. It means current assets are double of current liabilities. It shows the short-term solvency of business enterprises.

EXERCISE - 9 [PAGE 376]

Exercise - 9 | Q 1 | Page 376

Answer in one sentence only.

Mention two objectives of comparative statement?

Solution: Objectives of comparative statements are :

- (i) Compare financial data at two points of time and
- (ii) Helps in deriving the meaning and conclusions regarding the changes in financial positions and operating results.

Exercise - 9 | Q 2 | Page 376

Answer in one sentence only.

State three examples of cash inflows?

Solution: Examples of cash inflows are :

- (1) Interest received,
- (2) Dividend received,
- (3) Sale of asset/investment,
- (4) Rent received.

Exercise - 9 | Q 3 | Page 376

Answer in one sentence only.

State three examples of cash out flows?

Solution: Examples of cash out flows are :

- (1) Interest paid,
- (2) Loss on sale of asset,
- (3) Dividend paid,
- (4) Repayment of short-term borrowings.

Exercise - 9 | Q 4 | Page 376

Answer in one sentence only.

Give the formula of Gross Profit Ratio?

Solution:

$$\text{Gross profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

Where Gross profit = Net sales – Cost of goods sold

Cost of goods sold = Opening stock + Purchase – Purchase return + Direct expense – Closing stock

Net sales = Sales – Sales return.

Exercise - 9 | Q 5 | Page 376

Answer in one sentence only.

Give the formula of gross profit?

Solution:

Gross profit = Net sales – Cost of goods sold.

Cost of goods sold = Opening stock + Purchase – Purchase return + Direct expense – Closing stock

Net sales = Sales – Sales return.

Exercise - 9 | Q 6 | Page 376

Answer in one sentence only.

Give any three examples of current assets?

Solution: Cash or cash equivalent short-term lending and advances, expenses paid in advance, taxes paid in advance, etc. are the examples of current assets.

Exercise - 9 | Q 7 | Page 376

Answer in one sentence only.

Give the formula of current ratio?

Solution:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Exercise - 9 | Q 8 | Page 376

Answer in one sentence only.

Give the formula of quick assets?

Solution: Quick assets = Current assets – (Stock + Prepaid expense)

Exercise - 9 | Q 9 | Page 376

Answer in one sentence only.

State the formula of Cost of goods sold?

Solution: Cost of goods sold = Opening stock + Purchase – Purchase return + Direct expense – Closing stock

Exercise - 9 | Q 10 | Page 376

Answer in one sentence only.

State the formula of Average Stock?

Solution:

$$\text{Average stock} = \frac{\text{Opening stock of goods} + \text{Closing stock of goods}}{2}$$

PRACTICAL PROBLEM [PAGES 376 - 379]

Practical problem | Q 1 | Page 376

From the Balance Sheet of Amar Traders as on 31st March 2018 and 31st, March 2019 prepare comparative Balance Sheet.

Liabilities	31.3.2018 (₹)	31.3.2019 (₹)	Assets	31.3.2018 (₹)	31.3.2019 (₹)
Capital	60,000	72,000	Fixed Assets	1,20,000	1,50,000
Reserves and Surplus	24,000	30,000	Current Assets	28,000	27,000
Loans	34,000	51,000			
Creditors	30,000	24,000			
	1,48,000	1,77,000		1,48,000	1,77,000

Solution:

Comparative Balance Sheet of Amar Traders as on 31 st March 2018 and 31 st March 2019				
Particulars	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Absolute Change (₹)	Percentage Change
I. Sources of Funds				
(a) Capital	60,000	72,000	12,000	20 % Increase
(b) Reserve and Surplus	24,000	30,000	6,000	25 % Increase
(A) Net Worth	84,000	1,02,000	18,000	21.43 % Increase
Borrowed Funds				
(a) Loans	34,000	51,000	17,000	50 % Increase

(B) Total Borrowed Funds	34,000	51,000	17,000	50 % Increase
Total Funds Available (A + B)	1,18,000	1,53,000	35,000	29.66 % Increase

II. Application of Funds				
A. Fixed Assets	1,20,000	1,50,000	30,000	25 % Increase
B. Working Capital				
(1) Current Assets	28,000	27,000	(1,000)	(3.57 %) Decrease
Less : (2) Current Liabilities Creditors	30,000	24,000	(6,000)	(20 %) Decrease
Working Capital				
(Current Assets – Current Liabilities)	(2,000)	3,000	5,000	(250 %) Increase
Total Funds Applied (A + B)	1,18,000	1,53,000	35,000	29.66 % Increase

$$\text{Percentage change} = \frac{\text{Amount of absolute change}}{\text{Amount of previous year}} \times 100.$$

Practical problem | Q 2 | Page 376

From the following Balance Sheet of Alpha Limited prepare a comparative Balance Sheet as on 31st March 2018 and 31st March 2019.

Balance Sheet As on 31st March 2018 and 31st March 2019					
Liabilities	31.3.2018 (₹)	31.3.2019 (₹)	Assets	31.3.2018 (₹)	31.3.2019 (₹)
Equity Share Capital	2,00,000	2,50,000	Land	80,000	1,00,000
12% Preference Shares	80,000	80,000	Building	60,000	90,000
Reserves and Surplus	1,00,000	1,40,000	Plant and Machinery	73,000	1,73,000
15% Debentures	60,000	51,000	Stock	1,50,000	1,10,000
Creditors	50,000	80,000	Debtors	1,28,000	1,40,000
Bills Payable	10,000	6,000	Bank	34,000	37,000
Provision for Taxation	25,000	43,000			
	5,25,000	6,50,000		5,25,000	6,50,000

Solution:

Comparative Balance Sheet of Alpha Limited as on 31st March, 2018 and 31st March, 2019				
Particulars	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Absolute Change (₹)	Percentage Change
I. Sources of Funds				
(a) Equity Share Capital	2,00,000	2,50,000	50,000	25 % Increase
(b) 12 % Preference Shares	80,000	80,000	–	–
(c) Reserve and Surplus	1,00,000	1,40,000	40,000	40 % Increase
(A) Net Worth	3,80,000	4,70,000	90,000	23.68 % Increase
Borrowed Funds				

Secured Loan – 15 % Debentures	60,000	51,000	(9,000)	(15 %) Decrease
(B) Total Borrowed Funds	60,000	51,000	(9,000)	(15 %) Decrease
Total Funds Available (A + B)	4,40,000	5,21,000	81,000	18.41 % Increase

II. Application of Funds				
A. Fixed Assets – Land	80,000	1,00,000	20,000	25 % Increase
Building	60,000	90,000	30,000	50 % Increase
Plant and Machinery	73,000	1,73,000	1,00,000	137 % Increase
	2,13,000	3,63,000	1,50,000	70.42 % Increase
I. B. Working Capital				
Current Assets – Stock	1,50,000	1,10,000	(40,000)	(26.67) % Decrease
Debtors	1,28,000	1,40,000	12,000	9.375 % Increase
Bank	34,000	37,000	3,000	8.82 % Increase
Less : Current Liabilities				
Creditors	50,000	80,000	30,000	60 % Increase
Bills Payable	10,000	6,000	(4,000)	(40 %) Decrease
Provision for Taxation	25,000	43,000	18,000	72 % Increase
Working Capital				

(Current Assets – Current Liabilities)	2,27,000	1,58,000	(69,000)	(30.40 %) Decrease
Total Funds Applied (A + B)	4,40,000	5,21,000	81,000	18.41 % Increase

Practical problem | Q 3 | Page 377

Prepare Comparative Balance Sheet for the year ended 31.3.18 and 31.3.19 Assets & Liabilities as follows

Particulars	31.3.18 (₹)	31.3.19 (₹)
1) Fixed Assets	120,000	1,50,000
2) Share Capital	60,000	72,000
3) Current Assets	28,000	27,000
4) Reserve & Surplus	24,000	30,000
5) Loan	34,000	57,000
6) Current liabilities	30,000	24,000

Solution:

Comparative Balance Sheet as on 31st March 2018 and 31st March 2019				
Particulars	31 – 03 – 2018 (₹)	31 – 03 – 2019 (₹)	Absolute Change (₹)	Percentage Change
I. Sources of Funds				
(a) Share Capital	60,000	72,000	12,000	20 % Increase
(b) Reserve and Surplus	24,000	30,000	6,000	25 % Increase
(A) Net Worth	84,000	1,02,000	18,000	21.43 % Increase
(B) Borrowed Funds – Loan	34,000	57,000	23,000	67.65 % Increase
Total Funds Available (A + B)	1,18,000	1,59,000	41,000	34.74 % Increase

II. Application of Funds				
A. Fixed Assets	1,20,000	1,50,000	30,000	25 % Increase
Working Capital				
(1) Current Assets	28,000	27,000	(1,000)	(3.57 %) Decrease
Less : (2) Current Liabilities	30,000	24,000	(6,000)	(20 %) Decrease
B. Working Capital				
(Current Assets – Current Liabilities)	(2,000)	3,000	5,000	(250 %) Decrease
Total Funds Applied (A + B)	1,18,000	1,53,000	35,000	29.66 % Increase

Practical problem | Q 4 | Page 377

Prepare Comparative Balance Sheet for the year ended 31.3.17 and 31.3.18

Particulars	31.3.17 (₹)	31.3.18 (₹)
1) Current liabilities	60,000	48,000
2) Fixed Assets	2,40,000	3,00,000
3) Loan	68,000	1,02,000
4) Share Capital	1,20,000	1,44,000
5) Reserve & Surplus	48,000	60,000
6) Current Assets	56,000	54,000

Solution:

Comparative Balance Sheet as on 31 st March 2017 and 31 st March 2018				
Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Absolute Change (₹)	Percentage Change
I. Sources of Funds				

(a) Share Capital	1,20,000	1,44,000	24,000	20 % Increase
(b) Reserve and Surplus	48,000	60,000	12,000	25 % Increase
(A) Net Worth	1,68,000	2,04,000	36,000	21.43 % Increase
(B) Borrowed Funds – Loan	68,000	1,02,000	34,000	50 % Increase
Total Funds Available (A + B)	2,36,000	3,06,000	70,000	29.66 % Increase
II. Application of Funds				
A. Fixed Assets	2,40,000	3,00,000	60,000	25 % Increase
B. (1) Current Assets	56,000	54,000	(2,000)	(3.57 %) Decrease
Less : (2) Current Liabilities	60,000	48,000	(12,000)	(20 %) Decrease
B. Working Capital				
(Current Assets – Current Liabilities)	(4,000)	6,000	10,000	(250 %) Decrease
Total Funds Applied (A + B)	2,36,000	3,06,000	70,000	29.66 % Increase

Practical problem | Q 5 | Page 377

Prepare Comparative Income Statement of Noha Limited for the year ended

31.3.17 and 31.3.18

Particulars	31.3.17 (₹)	31.3.18 (₹)
Sales	2,00,000	3,00,000
Income Tax	50%	50%
Cost of Sales	1,20,000	80,000

Indirect Expenses	8,000	12,000
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Solution:

Comparative Income Statement of Noha Limited For the year ended 31st March, 2017 and 31st March, 2018				
Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Absolute Change (₹)	Percentage Change
Sales	2,00,000	3,00,000	1,00,000	50 % Increase
Less: Cost of Sales	1,20,000	80,000	(40,000)	(33.33 %) Decrease
Gross Profit	80,000	2,20,000	1,40,000	175 % Increase
Less : Indirect Expenses	8,000	12,000	4,000	50 % Increase
Net Profit before Tax	72,000	2,08,000	1,36,000	188.89 % Increase
Less : Tax 50 %	36,000	1,04,000	68,000	188.89 % Increase
Net Profit after Tax	36,000	1,04,000	68,000	188.89 % Increase

Practical problem | Q 6 | Page 378

Prepare comparative Income Statement of Sourabh Limited for the year ended 31.3.17 and 31.3.18

Particulars	31.3.17 (₹)	31.3.18 (₹)
Sales	4,00,000	6,00,000
Indirect Expenses	16,000	24,000
Cost of Sales	24,000	56,000

Income Tax	50%	50%
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Solution:

Comparative Income Statement of Sourabh Limited For the year ended on 31st March, 2017 and 31st March, 2018				
Particulars	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	Absolute Change (₹)	Percentage (%) Change
Sales	4,00,000	6,00,000	2,00,000	50 % Increase
Less : Cost of Sales	24,000	56,000	32,000	133.33 % Increase
Gross Profit	3,76,000	5,44,000	1,68,000	44.68 % Increase
Less : Indirect Expences	16,000	24,000	8,000	50 % Increase
Net Profit before Tax	3,60,000	5,20,000	1,60,000	44.44 % Increase
Less : Tax 50 %	1,80,000	2,60,000	80,000	44.44 % Increase
Net Profit after tax	1,80,000	2,60,000	80,000	44.44 % Increase

Practical problem | Q 7 | Page 378

Following is the Balance Sheet of Sakshi Traders for the year ended 31.3.17 and 31.3.18

Liabilities	31.3.17 (₹)	31.3.18 (₹)	Assets	31.3.17 (₹)	31.3.18 (₹)
Equity Share Capital	80,000	80,000	Fixed Assets	1,20,000	1,44,000
Pref. Share Capita	20,000	20,000	Investment	20,000	20,000

Reserve & Surplus	20,000	24,000	Current Assets	60,000	48,000
Secured Loan	40,000	16,000			
Unsecured Loan	20,000	36,000			
Current Liabilities	20,000	36,000			
	2,00,000	2,12,000		2,00,000	2,12,000

Prepare common-size Balance Sheet for the year 31.3.17 and 31.3.18

Solution:

Common Size Statement of Balance Sheet of Sakshi Traders as on 31st March 2017 and 31st March 2018				
Particulars	Amount (₹)		% to total of Balance Sheet	
	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)	31 – 03 – 2017 (₹)	31 – 03 – 2018 (₹)
I. Sources of Funds :				
(1) Owner's Equity				
Equity Share Capital	80,000	80,000	44.45	45.45
Preference Shares Capital	20,000	20,000	11.11	11.36
Reserve and Surplus	20,000	24,000	11.11	13.64
Net Worth	1,20,000	1,24,000	66.67	70.45
(2) Borrowed Funds				
Secured Loans	40,000	16,000	22.22	9.09
Unsecured Loans	20,000	36,000	11.11	20.46
	60,000	52,000	33.33	29.55
Total Borrowed Funds	1,80,000	1,76,000	100	100
II. Application of Funds				

(1) Fixed Assets	1,20,000	1,44,000	66.67	81.82
(2) Investments	20,000	20,000	11.11	11.36
	1,40,000	1,64,000	77.78	93.18
(3) Working Capital				
(A) Current Assets	60,000	48,000	-	-
Less : (B) Current Liabilities	20,000	36,000	-	-
	40,000	12,000	22.22	6.82
Total Funds Applied	1,80,000	1,76,000	100	100

Practical problem | Q 8 | Page 378

Prepare common size Income Statement for the year ended 31.3.17 and 31.3.18.

Particulars	31.3.17 (₹)	31.3.18 (₹)
Sales	2,00,000	2,50,000.
Cost of goods sold	1,50,000	1,70,000
Office and Administrative Expenses	4,000	6,000
Selling and Distubution Expenses	6,000	1,000

Solution:

Common Size Statement for the year ended on 31st March, 2017 and 31st March, 2018				
Particulars	Amount (₹)	Percentage (%)	Amount (₹)	Percentage (%)
Sales	2,00,000	100	2,50,000	100
Less: Cost of goods sold	1,50,000	75	1,70,000	68
Gross Profit	50,000	25	80,000	32

Less: Office and Administrative Expenses	4,000	2	6,000	2.4
Less: Selling and Distribution Expenses	6,000	3	1,000	0.4
Net Profit	40,000	20	73,000	29.2

Practical problem | Q 9 | Page 378

Following is the Balance Sheet of Sakshi Limited. Prepare cashflow statement.:

Liabilities	31.3.17 (₹)	31.3.18 (₹)	Assets	31.3.17 (₹)	31.3.18 (₹)
Share Capital	2,00,000	3,00,000	Cash	20,000	30,000
Creditors	60,000	90,000	Debtors	1,40,000	2,50,000
Profit and Loss A/c	40,000	70,000	Stock	80,000	70,000
			Land	60,000	1,10,000
	3,00,000	4,60,000		3,00,000	4,60,000

Solution:

Cash Flow Statement For the year ended 31 st March, 2017 and 31 st March, 2018		
Particulars	Amount (₹)	Amount (₹)
(A) Cash flow from Operating activities		
Closing balance of Profit and Loss A/c	70,000	

Less: Opening balance of Profit and Loss A/c	40,000	
	30,000	
Add: Decrease in Current Asset – Stock	10,000	
Add: Increase in Current Liabilities – Creditors	30,000	
	70,000	
Less: Increase in Current Asset – Debtors	1,10,000	
Net Cash from Operating activities (A)		(40,000)
(B) Cash flow from Investing activities		
Purchase of Land	50,000	50,000
Net Cash used in Investing activities (B)		
(C) Cash flow from Financing activities		
Amount of share capital received	1,00,000	1,00,000
Net Cash from Financing activities (C)		
Net increase in cash and cash equivalent (A + C – B)		10,000
Cash equivalent in the beginning of period		20,000
Cash equivalent at the end of period		30,000

Practical problem | Q 10 | Page 378

From the following Balance Sheet of Konal Traders prepare cash flow statement.

Liabilities	31.3.17 (₹)	31.3.18 (₹)	Assets	31.3.17 (₹)	31.3.18 (₹)
Share Capital	2,00,000	2,50,000	Cash	30,000	47,000
Creditors	70,000	45,000	Debtors	1,20,000	1,15,000

Profit and Loss A/c	10,000	23,000	Stock	80,000	90,000
			Land	50,000	66,000
	2,80,000	3,18,000		2,80,000	3,18,000

Solution:

Cash Flow Statement For the year ended on 31st March 2017 and 31st March 2018			
Particular	Amount (₹)	Amount (₹)	
(A) Cash flow from Operating activities			
Closing balance of Profit and Loss A/c	23,000		
Less: Opening balance of Profit and Loss A/c	10,000		
	13,000		
Add: Decrease in Current Assets – Debtors	5,000		
	18,000		
Less: Increase in Current Assets – Stock	(10,000)		
Less: Decrease in Current Liabilities – Creditors	(25,000)		
Net Cash from Operating activities (A)		(17,000)	
(B) Cash flow from Investing activities			
Purchase of Land	16,000	16,000	
Net Cash used in Investing activities (B)			
(C) Cash flow from Financing activities			
Amount of share capital received	50,000	50,000	
Net Cash used in Financing activities (C)			
Net increase in cash and cash equivalent (A+ C – B)		17,000	

Cash equivalent in the beginning of period		30,000
Cash equivalent at the end of period.		47,000

Practical problem | Q 11 | Page 379

A Company had the following Current Assets and Current Liabilities

Debtors	₹ 1,20,000	Creditors	₹ 60,000
Bills Payable	₹ 40,000	Stock	₹ 60,000
Loose Tools	₹ 20,000	Bank overdraft	₹ 20,000

Calculate Current Ratio.

Solution:

(1) Current Assets = Debtors + Stock + Loose Tools

= 1,20,000 + 60,000 + 20,000

= ₹ 2,00,000

(2) Current liabilities = Creditors + Bills payable + Bank overdraft

= 60,000 + 40,000 + 20,000

= ₹ 1,20,000

(3) Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

= $\frac{2,00,000}{1,20,000}$

= $\frac{5}{3}$

Current ratio = 5 : 3

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Current Assets of Company ₹ 6,00,000 and its Current Ratio is 2:1

Find Current Liabilities**Solution:**

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\frac{2}{1} = \frac{6,00,000}{\text{Current liabilities}}$$

$$2 \times \text{Current liabilities} = 6,00,000 \times 1$$

$$\therefore \text{Current liabilities} = \frac{6,00,000}{2}$$

$$= ₹ 3,00,000$$

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$$\text{Current Liabilities} = ₹ 3,00,000$$

$$\text{Working Capital} = ₹ 8,00,000$$

$$\text{Inventory} = ₹ 2,00,000$$

Calculate Quick Ratio.**Solution:**

$$\text{Current assets} = \text{Current liabilities} + \text{Working capital}$$

$$= 3,00,000 + 8,00,000$$

$$= ₹ 11,00,000$$

$$\text{Quick assets} = \text{Current assets} - \text{Inventory}$$

$$= 11,00,000 - 2,00,000$$

$$= ₹ 9,00,000$$

$$\text{Quick liability} = \text{Current liabilities} - \text{Bank O / D}$$

$$= ₹ 3,00,000$$

$$\begin{aligned}
 \text{Quick ratio} &= \frac{\text{Quick assets}}{\text{Quick liabilities}} \\
 &= \frac{9,00,000}{3,00,000} \\
 &= \frac{3}{1} \\
 &= \mathbf{3:1}
 \end{aligned}$$

Practical problem | Q 14 | Page 379

Calculate the Gross Profit Ratio

Sales	₹ 2,70,000
Net purchases	₹ 1,50,000
Sales Return	₹ 20,000
Closing Stock	₹ 25,000
Operating Stock	₹ 45,000

Solution:

Net sales = Sales – Sales return

$$= 2,70,000 - 20,000$$

$$= ₹ 2,50,000$$

Cost of goods sold = Opening stock + Net purchase – Closing stock

$$= 45,000 + 1,50,000 - 25,000$$

$$= ₹ 1,70,000$$

Gross profit = Net sales – Cost of goods sold

$$= 2,50,000 - 1,70,000$$

$$= ₹ 80,000$$

$$\text{Gross Profit ratio} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

$$= \frac{80,000}{2,50,000} \times 100$$

∴ Gross profit ratio = 32 %

Practical problem | Q 15 | Page 379

Calculate Net Profit Ratio from the following

Sales	₹ 3,80,000
Cost of good sold	₹ 2,60,000
Indirect Exp	₹ 60,000

Solution:

Sales	₹ 3,80,000
Less: Cost of goods sold	₹ 2,60,000
Gross profit	₹ 1,20,000
Less: Indirect expense	₹ 1,60,000
Net profit	₹ 1,60,000

$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Sales}} \times 100$$

$$= \frac{60,000}{3,80,000} \times 100$$

= 15.79 %

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Calculate Operating Ratio

Cost of good sold	₹ 3,50,000
Operating Exp.	₹ 30,000

Sales	₹ 5,00,000
Sales Return	₹ 30,000

Solution:

Net sales = Sales – Sales return

= 5,00,000 – 30,000

= ₹ 4,70,000

Operating ratio = $\frac{\text{cost of goods sold} + \text{operating expense}}{\text{Net sales}} \times 100$

= $\frac{3,50,000 + 30,000}{4,70,000} \times 100$

= $\frac{3,80,000}{4,70,000} \times 100$

= **80.85 %**

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Calculate

1) Current Assets	₹ 3,00,000
2) Current Liabilities	₹ 1,00,000

What is current Ratio.

Solution:

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

= $\frac{3,00,000}{1,00,000}$

= $\frac{3}{1}$

= **3: 1**