

# BOOK-2

## CHAPTER-5

### ACCOUNTING RATIOS

---

#### Section A: One Mark Questions

##### I. Fill in the blanks :

1. Accounting Ratios are an important tool of \_\_\_\_\_
2. A \_\_\_\_\_ is a mathematical number calculated as a reference to relationship of two or more numbers.
3. \_\_\_\_\_ can be expressed as a fraction, proportion, percentage and a number of times.
4. If a ratio is compared with one variable from the statements of Profit and Loss and another variable from the Balance Sheet, it is called \_\_\_\_\_.
5. Quick Ratio is also known as \_\_\_\_\_.
6. Ratios are means to an end rather than the \_\_\_\_\_.
7. Current ratio is the proportion of \_\_\_\_\_ to current liabilities.
8. \_\_\_\_\_ ratios are calculated to measure the short term solvency of the business.
9. The quick assets are those assets which are quickly convertible into \_\_\_\_\_
10. The \_\_\_\_\_ ratios are preliminary measures of return.
11. Ratio of gross profit to revenue from operations is known as \_\_\_\_\_ ratio.
12. \_\_\_\_\_ ratio measures the relationship between long term debt and equity.
13. Proprietary ratio expresses relationship of proprietor's funds to \_\_\_\_\_
14. The \_\_\_\_\_ measures the activity of a firm's inventory.
15. The \_\_\_\_\_ is useful in evaluating credit and collection policies.

##### II. Multiple Choice Questions:

1. The following groups of ratios are primarily measures risk:
  - a) Liquidity, Activity and Profitability
  - b) Liquidity, Activity and Inventory
  - c) Liquidity, Activity and Debt
  - d) Liquidity, Debt and Profitability
2. The \_\_\_\_\_ ratios are primarily measures return:
  - a) Liquidity
  - b) Activity
  - c) Debt
  - d) Profitability
3. The \_\_\_\_\_ of business firm is measured by its ability to satisfy its short-term obligations as they become due:
  - a) Activity
  - b) Liquidity
  - c) Debt
  - d) Profitability

4. \_\_\_\_\_ ratios are a measure of the speed with which various accounts are converted into revenue from operations or cash:
- a) Activity
  - b) Liquidity
  - c) Debt
  - d) Profitability
5. The two basic measures of liquidity are:
- a) Inventory Turnover and Current Ratio
  - b) Current Ratio and Liquid Ratio
  - c) Gross Profit Margin and Operating Ratio
  - d) Current Ratio and Average Collection Period
6. The \_\_\_\_\_ is a measure of liquidity which excludes \_\_\_\_\_, generally the least liquid asset:
- a) Current ratio, trade receivable
  - b) Liquid ratio, trade receivable
  - c) Current ratio, inventory
  - d) Liquid ratio, inventory
7. The \_\_\_\_\_ is useful in evaluating credit and collection policies.
- a) Average Payment Period
  - b) Current Ratio
  - c) Average Collection Period
  - d) Current Asset Turnover
8. The \_\_\_\_\_ measures the activity of a firm's inventory
- a) Average collection period
  - b) Inventory turnover ratio
  - c) Liquid ratio
  - d) Current ratio
9. The \_\_\_\_\_ may indicate that the firm is experiencing stock outs and lost sales.
- a) Average payment period
  - b) Inventory turnover ratio
  - c) Average collection period
  - d) Quick ratio
10. ABC Co. extends credit terms of 45 days to its customers. Its credit collection would be considered poor, if its average collection period was:
- a) 30 days
  - b) 36 days
  - c) 47 days
  - d) 37 days
11. \_\_\_\_\_ are especially interested in the average payment period, since it provides them with a sense of the bill-paying patterns of the firm.
- a) Customers
  - b) Stockholders
  - c) Lenders and suppliers
  - d) Borrowers and buyers
12. The \_\_\_\_\_ ratios provide the information critical to the long run operation of the firm:
- a) Liquidity
  - b) Activity
  - c) Solvency
  - d) Profitability
13. Dividend payout ratio refers to proportion of earning that are distributed to the:
- a) Share holders
  - b) Debenture holders
  - c) Creditors
  - d) Lenders

**14.** Trade payables turnover ratio indicates:

- |                              |                             |
|------------------------------|-----------------------------|
| a) Payment of Trade Payables | b) Payment to Creditors     |
| c) Payment of Bank Loan      | d) Payment of Bills Payable |

**15.** Liquidity ratios are expressed in :

- |                    |                      |
|--------------------|----------------------|
| a) Pure ratio form | b) Percentage        |
| c) Rate or Time    | d) None of the above |

### **III. True or False Type Questions:**

1. The only purpose of financial reporting is to keep the managers informed about the progress of operations.
2. Analysis of data provided in the financial statements is termed as financial analysis.
3. Long-term borrowings are concerned about the ability of a firm to discharge its obligations to pay interest and repay the principal amount.
4. A ratio is always expressed as a quotient of one number divided by another.
5. Ratios help in comparisons of a firm's results over a number of accounting periods as well as with other business enterprises.
6. A ratio reflects quantitative and qualitative aspects of results.
7. Liquidity ratios are essentially short-term in nature.
8. Current ratio is the proportion of current assets to current liabilities.
9. The quick assets are those assets which cannot be quickly converted into cash
10. A higher interest coverage ratio ensures safety of interest of debts.
11. The liquidity ratios are preliminary measures of return
12. Higher gross profit ratio is always a good sign
13. Dividend payout ratio refers to the proportion of earning distributed to the share holders .
14. Net profit refers to profit after tax (PAT)
15. Price earnings ratio =Market price of share / Earnings per share

### **IV. Very Short Answer Type Questions:**

1. Give the meaning of Ratio Analysis.
2. State any one objective of ratio analysis.
3. State any one use of ratio analysis.
4. Mention any one limitation of ratio analysis.
5. Mention any one type of ratio.
6. Give one example for current assets.
7. Give one example for current liability.
8. What is current ratio?
9. What is quick ratio?

10. Name any one type of turnover ratio.
11. Give the meaning of net profit ratio.
12. Give the meaning of dividend payout ratio.
13. What is activity ratio?
14. State one significance of interest coverage ratio.
15. Expand EPS

### Section C: 6 Marks Questions

#### Problems on Current Ratio and Quick Ratio

01. From the following information Calculate the Current Ratio and Quick Ratio:

Current Assets	2,40,000
Current Liabilities	60,000
Quick Assets	1,20,000

**Answer: Current Ratio 4:1, Quick Ratio 2:1**

02. Following is the Balance Sheet of Fergana Co.,Ltd.,as on 31.03.2018 .

#### Balance Sheet as on 31.03.2018

Liabilities	₹	Assets	₹
Equity Share capital	2,40,000	Buildings	4,50,000
8% Debentures	90,000	Stock	1,26,000
Profit & Loss A/c	60,000	Debtors	90,000
Bank Overdraft	60,000	Cash in hand	22,800
Creditors	2,40,000	Prepaid Expenses	7,200
Provision for taxation	6,000		
	6,96,000		6,96,000

Calculate Current Ratio and Quick Ratio.

**Answer: Current Ratio = 0.83:1, Quick Ratio = 0.37:1**

03. Calculate Current Ratio and Quick Ratio from the following information:

Stock	25,000
Debtors	20,000
Bills receivable	5,000
Advance tax	2,000
Cash	15,000
Creditors	30,000
Bills payable	20,000
Bank overdraft	2,000

**Answer: Current Ratio =1.29:1 , Quick Ratio = 0.76:1**

**04.** From the following particulars, Calculate current ratio and quick ratio:

Particulars	₹
Inventories	1,20,000
Trade Receivables	90,000
Cash in hand	22,800
Current Investment	7,200
Trade Payables	2,34,000
Proposed dividend	6,000
Bank overdraft	60,000

**Answer: Current Ratio= 0.8:1, Quick Ratio= 0.4:1**

**05.** From the following, calculate Current Ratio and Quick Ratio.

Current assets	: ₹2,40,000
Stock	: ₹1,20,000
Current liabilities	: ₹60,000

**Answer: Current Ratio= 4:1, Quick Ratio = 2:1**

**06.** Calculate Current Ratio and Quick Ratio from the following information:

Stock	50,000
Debtors	40,000
Bills receivable	10,000
Advance tax	4,000
Cash	40,000
Creditors	60,000
Bills payable	40,000
Bank overdraft	4,000

**Answer: Current Ratio= 1.38:1, Quick Ratio = 0.87:1**

**07.** Calculate Current Ratio and Quick Ratio from the following information :

Stock	1,00,000
Debtors	80,000
Bills receivables	20,000
Advance tax	8,000
Cash	60,000
Creditors	1,20,000
Bills payable	80,000
Bank overdraft	80,000

**Answer: Current Ratio = 0.96:1, Quick Ratio= 0.57:1**

**08.** Karnataka Co.Ltd. had the following as on 31/03/2018

Current assets                      2,40,000

Current liabilities                60,000

Quick assets                      1,20,000

Calculate:

I) Current Ratio

II) Quick Ratio

**Answer: Current Ratio = 4:1, Quick ratio= 2:1**

**09.** Current ratio is 3:2 and working capital is ₹50,000. Calculate the amount of current assets and current liabilities.

**Answer: Current Assets = 1,50,000, Current Liabilities =1,00,000**

**10.** Honda Ltd. has inventory of ₹20,000. Total liquid assets are ₹1,00,000 and Quick Ratio is 2:1. Calculate Current Ratio.

**Answer: Current Ratio 2.4:1**

**11.** From the following information, Calculate following ratios:

i) Current Ratio

ii) Liquid Ratio

₹

Current Assets                      35,000

Current Liabilities                17,500

Inventory                            15,000

Operating expenses               20,000

Revenue from operations        60,000

Cost of revenue from operations   30,000

**Answer: Current Ratio 2:1; Liquid Ratio 1.14:1**

## Problems on Debt Equity Ratio, Proprietary Ratio and Debt to Capital Employed Ratio

- 12.** From the following information calculate Debt -Equity Ratio ,  
**Proprietary Ratio and Debt to Capital Employed Ratio.**

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

Particulars	Note No.	₹
I. Equity and Liabilities:		
1. Shareholders' funds		
a) Share capital		4,00,000
b) Reserves and surplus		1,00,000
2. Non- Current Liabilities		
Long – term borrowings		1,50,000
3. Current Liabilities		50,000
Total		7,00,000
II. Assets		
1. Non-Current Assets		
a) Fixed assets		4,00,000
b) Non-current investment		1,00,000
2. Current assets		2,00,000
Total		7,00,000

**Answer: Debt – Equity Ratio = 0.3:1, Proprietary Ratio = 0.71:1**  
**Debt to Capital Employed Ratio = 0.23:1**

- 13.** Compute Debt - Equity Ratio and Proprietary Ratio from the following

Particulars	₹	Particulars	₹
Paid up Share Capital	5,00,000	Current assets	4,00,000
Net Sales	10,00,000	13% Debentures	2,00,000
Current Liabilities	2,80,000	Cost of Goods Sold	6,00,000
Average Inventory	1,50,000		

**Answer: Debt – Equity Ratio 0.4:1, Proprietary Ratio 0.51:1**

- 14.** Following information is given by a Company from its books of accounts as on March, 31,2018.

Calculate Debt Equity Ratio, Interest Coverage Ratio, and Debt to Capital Employed Ratio.

Particulars	₹
Inventory	1,00,000
Total Current Assets	1,60,000
Shareholders' funds	4,00,000
13% Debentures	3,00,000
Current liabilities	1,00,000
Net profit before tax	3,51,000
Cost of revenue from operations	5,00,000
Total assets	8,00,000

**Answer: Debt- Equity Ratio= 0.75:1, Interest Coverage Ratio= 10 times Debt to Capital Employed Ratio=0.38:1**

- 15.** From the following information, Calculate Debt-Equity Ratio and Debt To Capital Employed Ratio and Total Assets to Debt Ratio

Total Assets	15,00,000
Current Liabilities	6,00,000
Total Debts	12,00,000

**Answer: Debt- Equity Ratio = 2:1 , Debt To Capital Employed Ratio= 0.80:1 Total assets to Debt Ratio= 1.25:1**

### Section-D Marks Questions

- 01.** Following is the Trading and Profit and Loss Account for the year ending 31<sup>st</sup> March, 2016

Particulars	₹	Particulars	₹
To Opening Stock	10,000	By Sales	1,00,000
To Purchases	55,000	By Closing Stock	15,000
To Gross profit	50,000		1,15,000
To Administrative Expenses	1,15,000	By Gross Profit	50,000
To selling Expenses	15,000		
To Interest	12,000		
To net Profit	3,000		
	20,000		
	50,000		50,000

### Balance Sheet as at 31<sup>st</sup> March 2018

Liabilities	₹	Assets	₹
Capital	1,00,000	Land and Building	50,000
Profit and Loss A/c	20,000	Plant and Machinery	30,000
Creditors	25,000	Furniture	20,000
Bills Payable	15,000	Stock	15,000
		Sundry Debtors	15,000
		Bills Receivable	12,500
		Cash in Hand	17,500
	1,60,0000		1,60,000

Calculate:

- Stock Turnover Ratio
- Trade Receivable Turnover Ratio
- Trade Payable Turnover Ratio
- Gross Profit Ratio
- Operating Ratio
- Net Profit Ratio

#### Answers:

- Stock turnover ratio = 4 times
- Trade receivable turnover ratio = .64 times
- Trade Payable turnover ratio = 1.38 times
- Gross profit ratio = 50%
- Operating ratio = 77%
- Net Profit ratio = 20%

**02.** The following is the Summarized Profit and loss Account for the year ended 31 March 2018 And Balance sheet as on that date.

#### Trading and Profit and Loss account for the year ended 31st March 2018

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Opening Stock	65,000	By Sales	2,00,000
To Purchases	1,00,000	By Closing Stock	15,000
To Gross profit	50,000		
	2,15,000		2,15,000
To Administrative Expenses	15,000	By Gross Profit	50,000
To Selling Expenses	12,000		
To Interest	3,000		
To Net Profit	20,000		
	50,000		50,000

**Balance Sheet as on 31<sup>st</sup> March 2018**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Capital	1,00,000	Land and Building	50,000
Profit and Loss A/C	20,000	Plants and Machinery	30,000
Creditors	25,000	Furniture	20,000
Bills Payable	15,000	Stock	15,000
		Sundry Debtors	15,000
		Bills Receivable	12,500
		Cash in Hand	17,500
	1,60,000		1,60,000

You are required to Calculate:

- Stock turnover Ratio
- Trade Receivable Turnover Ratio
- Trade Payable Turnover Ratio
- Gross Profit Ratio
- Operating Ratio
- Net Profit Ratio

**Answers:**

1. Stock Turnover Ratio = 3.75 times
2. Trade Receivable Turnover Ratio = 7.3 times
3. Trade Payable Turnover Ratio = 2.5 times
4. Gross profit Ratio = 25%
5. Operating Ratio = 88.5%
6. Net Profit Ratio = 10%

**03.** From the following information calculate.

1. Inventory Turnover Ratio
2. Trade Receivable Turnover Ratio
3. Trade Payable Turnover Ratio
4. Earnings Per Share
5. Book Value Per Share
6. Dividend Payout Ratio

<b>Particulars</b>	<b>₹</b>
Inventory	1,00,000
70,000 Equity Share of ₹10 each	7,00,000
Cost of Revenue from Operation	5,00,000
Net Purchases	4,00,000
Net Profit Before Tax	3,51,000
13% Debentures	3,00,000
Net Profit after tax but before dividend	1,75,000
Trade Receivables	50,000
Trade Payables	75,000
Dividend declared @ 15%	-----

**Answers:**

1. Inventory Turnover Ratio = 5 times
2. Trade Receivables Turnover Ratio = 10 times
3. Trade Payable Turnover Ratio = 5.33 times
4. Earnings Per Share = ₹2.50
5. Book Value per Share = ₹12.50
6. Dividend Payout Ratio = 0.60

**04.** From the following information, calculate

1. Gross Profit Ratio
2. Inventory Turnover Ratio
3. Trade Receivable Turnover Ratio
4. Return On Shareholders' Fund (RONW)
5. Return on Investment
6. Book Value Per Share

Particulars	₹
Revenue from Operations	3,00,000
Cost of revenue from operations	2,40,000
Inventory at the end	62,000
Gross profit	60,000
Inventory in the beginning	58,000
Trade receivables	32,000
Net Profit After Tax	1,00,000
Share Capital of 10each	6,00,000
Profit and Loss A/c	3,00,000
10% Debentures	4,00,000
Net Profit Before Tax	2,00,000

**Answers:**

1. Gross Profit = 20%
2. Inventory Turnover Ratio = 4 times
3. Trade Receivable Turnover Ratio = 9.4 times
4. Return on Shareholders' Fund = 11.11%
5. Return On Investment = 15.38 %
6. Book Value Per Share = 15

05. X Ltd., presented the following Trading and Profit & Loss account for the year ended 31.3.2018.

**Trading and profit loss A/c for the year ending 31-3-2018**

Particulars	₹	Particulars	₹
To Opening Stock	2,00,000	By Sales	10,00,000
To Purchases	7,00,000	By Closing Stock	4,00,000
To Wages	1,00,000		
To Gross profit	4,00,000		
	14,00,000		14,00,000
To Administrative Expenses	3,00,000	By Gross Profit	4,00,000
To Selling & Distribution Exp.	40,000	By Profit on sale of plant	20,000
To Net Profit	80,000		
	4,20,000		4,20,000

Debtors on 01.04.2017 ₹3,00,000 and on 31.03.2018– ₹2,00,000

Creditors on 01.04.2017 ₹3,00,000 and on 31.03.2018 –₹3,00,000

**Calculate**

1. Gross Profit Ratio
2. Net Profit Ratio
3. Operating Ratio
4. Inventory Turnover Ratio
5. Trade Receivable Turnover Ratio
6. Trade Payable Turnover Ratio

**Answers**

1. Gross profit = 40%
2. Net Profit Ratio = 50%
3. Operating Ratio = 94%
4. Inventory Turnover Ratio = 2 times
5. Trade Receivable Turnover Ratio = 4 times
6. Trade Payable Turnover Ratio = 2.3 times

06. From the following details, calculate.

1. Investment (Net Assets) Turnover Ratio
2. Fixed Assets Turnover Ratio
3. Working Capital Turnover Ratio
4. Return On Investment
5. Return On shareholders' fund (RONW)
6. Earnings Per Share

Particulars	₹
Equity Share Capital@ 10each	4,00,000
12% Preference Share Capital	1,00,000
General Reserves	1,84,000
10% Debentures	4,00,000
Current Liabilities	1,00,000
Fixed Assets	9,50,000
Current Assets	2,34,000

Net Profit after tax was ₹1, 50,000. Revenue from operation for the year was ₹30,00,000 and tax amounted to ₹50,000

**Answers:**

1. Investment Turnover Ratio = 2.78 times
2. Fixed Assets Turnover Ratio = 3.16 times
3. Working Capital Turnover Ratio = 22.39 times
4. Return On Investment = 22.22 times
5. Return On Shareholders' Fund = 21.93 %
6. Earning Per Share = ₹3.45

**07.** The followings are the summarized Profit and Loss Account for the year ended 31.12.2018 and Balance Sheet.

**Trading and Profit and Loss a/c for the year ending 31.12.2018**

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales	2,00,000
To Purchases	1,10,000	By Closing Stock	30,000
To Gross profit	1,00,000		
	2,30,000		2,30,000
To Administrative Expenses	30,000	By Gross Profit	1,00,000
To Interest	10,000		
To Selling Expenses	20,000		
To Net Profit	40,000		
	1,00,000		1,00,000

**Balance Sheet as at 31.12.2018**

Liabilities	₹	Assets	₹
Capital	2,00,000	Land and Buildings	1,00,000
Profit and Loss A/c	40,000	Plant and Machinery	60,000
Creditors	50,000	Furniture	40,000
Bills Payable	30,000	Stock	30,000
		Sundry Debtors	30,000
		Bills Receivable	25,000
		Cash at bank	35,000
	3,20,000		3,20,000

Additional Information

- a. Average Debtors ₹25,000
- b. Average Credit Purchases ₹80,000

You are required to calculate

- i. Gross Profit Ratio
- ii. Operating Ratio

- iii. Net Profit Ratio
- iv. Inventory turnover Ratio
- v. Trade Receivable turnover Ratio
- vi. Trade Payable turnover Ratio

**Answers:**

- 1. Gross profit = 50%
- 2. Operating Ratio = 75
- 3. Net profit Ratio = 20%
- 4. Inventory Turnover Ratio = 4 times
- 5. Trade Receivable Turnover Ratio = 8 times
- 6. Trade Payable Turnover Ratio = 1 time

**08.** From the given information, you are required to calculate the following Ratios.

- 1. Inventory turnover Ratio
- 2. Trade receivable Turnover Ratio
- 3. Trade Payable Turnover Ratio
- 4. Earning Per Share
- 5. Price Earnings Ratio
- 6. Book Value Per Share

**Trading and Profit and loss A/c for the year ending 31-3-2018**

Particulars	₹	Particulars	₹
To Opening Stock	3,000	By Sales	40,000
To Purchases	30,000	By Closing Stock	5,000
	12,000		
To Gross profit	45,000		45,000
To Sundry Expenses	2,000	By Gross Profit	12,000
To Net Profit	10,000		
	12,000		12,000

**Balance Sheet as at 31-3-2018**

Liabilities	₹	Assets	₹
Equity Share Capital	20,000	Land and Building	5,000
Reserve and Surplus	3,000	Plant and Machinery	5,000
Debentures	1,000	Stock	5,000
Creditors	5,000	Debtors	8,000
		Cash	6,000
	29,000		29,000

Provision for tax ₹5,000, Equity dividend ₹ 2,000, Market price of Share ₹30

**Answers:**

1. Inventory Turnover Ratio = 7 times
2. Trade Receivable Turnover Ratio = 5 times
3. Trade Payable Turnover Ratio = 6 times
4. Earning Per Share = 2.5
5. Price/ Earning ratio = 12 times
6. Book Value Per Share = 11.5

**09.** From the following information, you are required to calculate.

1. Investment Turnover Ratio
2. Fixed assets Turnover Ratio
3. Working Capital Turnover Ratio
4. Operating Profit Ratio
5. Dividend Payout Ratio
6. Book Value Per Share.

Particulars	₹
Revenue from Operations	20,00,000
Paid up Share Capital (₹10each)	5,00,000
Current Assets	4,00,000
Operating Profit	16,00,000
13% Debentures	1,00,000
General Reserve	1,00,000
10% Preference Shares of ₹10	2,00,000
Current Liabilities	2,50,000
Plant and Machinery	3,00,000
Furniture	5,00,000
Net profit after Tax	1,00,000

Market price of share ₹34, Tax amounted to ₹20,000 and EPS is ₹1.67

**Answers:**

1. Investment Turnover Ratio = 2.22 times
2. Fixed Assets Turnover Ratio = 2.5 times
3. Working Capital Turnover Ratio = 13.33 times
4. Operating Profit Ratio = 80%
5. Dividend Payout Ratio = 0.59
6. Book Value Per Share. = ₹12

**10.** From the following information, calculate:

1. Inventory Turnover Ratio
2. Fixed Assets Turnover Ratio
3. Working Capital Ratio
4. Earning Per Share
5. Book Value Per Share
6. Dividend Payout Ratio

Particulars	₹
Sales(Revenue from operations)	6,00,000
Gross profit	1,00,000
Stock(1-1-2017)	1,00,000
Working Capital	2,00,000
Fixed Assets	3,00,000
70,000 Equity shares of ₹10each	7,00,000
Net profit after tax but before dividend	1,75,000
Market price of a share	13
Dividend declared @ 15%	----

**Answer:**

1. Inventory turnover Ratio = 5 times
2. Fixed Assets Turnover Ratio = 2 times
3. Working Capital Turnover Ratio = 3 times
4. Earning Per Share = ₹2.50
5. Book Value Per Share = ₹12.50
6. Dividend Payout Ratio = 0.6

**11.** From the following particulars, calculate:

- a. Inventory Turnover Ratio
- b. Trade Receivable Turnover Ratio
- c. Trade Payable Turnover Ratio
- d. Gross Profit Ratio
- e. Operating Ratio
- f. Net Profit Ratio

Particulars	₹
Revenue from operations	10,00,000
Gross profit	2,00,000
Average inventory	1,00,000
Net credit revenue from operations	6,00,000
Average trade receivables	1,50,000
Net Credit Purchases	5,00,000
Average Trade payable	2,50,000
Operating expenses	1,00,000
Net profit	1,00,000

Answers:

- a. Inventory Turnover Ratio = 8 times
- b. Trade Receivable Turnover Ratio = 4 times
- c. Trade Payable Turnover Ratio = 2 times
- d. Gross Profit Ratio = 20%
- e. Operating Ratio = 90%
- f. Net Profit Ratio = 10%

**12.** From the following Particulars calculate:

- a. Net Assets Turnover Ratio
- b. Fixed Assets Turnover Ratio
- c. Working Capital Turnover ratio
- d. Operating Profit Ratio
- e. Return on Capital Employed Ratio
- f. Earning Per Share

Particulars	₹
Revenue from operations	15,00,000
Net fixed assets	50,00,000
Working capital	10,00,000
Operating profit	5,00,000
Profit after interest and tax	3,00,000
Interest and tax expenses	2,00,000
Dividend paid to preference shares	1,00,000
Capital employed	40,00,000
Equity share capital of ₹ 10 each	1,00,000

**Answers:**

- a) Net Assets Turnover Ratio = 36.59 times
- b) Fixed Assets Turnover Ratio = 0.3 times
- c) Working Capital Turnover Ratio = 1.5 times
- d) Operating Ratio = 33.33%
- e) Return On Capital Employed Ratio = 12.29%
- f) Earnings Per Share = ₹20

**Section- A KEY ANSWER:**

**I. Fill in the blanks**

- |                                 |                        |
|---------------------------------|------------------------|
| 1. Financial Statement Analysis | 2. Ratio analysis      |
| 3. Ratio                        | 4. Comparative ratio.  |
| 5. Acid Test ratio.             | 6. End of itself       |
| 7. Current assets               | 8. Liquidity           |
| 9. Cash.                        | 10. Profitability      |
| 11. Gross profit                | 12. Debt equity        |
| 13. Net assets                  | 14. Inventory turnover |
| 15. Average collection period   |                        |

**II. Multiple Choice Questions**

1-D, 2-D, 3-B, 4-A, 5-B, 6-D, 7-C, 8-B, 9-A, 10-C, 11-C, 12-C, 13-A, 14-A, 15-A

**III. True or False**

- |            |           |           |           |           |
|------------|-----------|-----------|-----------|-----------|
| 1- False,  | 2- True,  | 3- True,  | 4- False, | 5- True,  |
| 6- False,  | 7- True,  | 8- True,  | 9- False, | 10- True, |
| 11- False, | 12- True, | 13- True, | 14- True, | 15- True  |