Important Questions Part-1

Statement Analysis Tools and Accounting Ratios

Questions for 1 mark

1. **X Ltd has a debt Equity Ratio at 3:1. According to the Management, it should be maintained at 1;1. What are the two choices to do so?**

   Ans: The Two choices to maintain Debt Equity ratio at 1:1 are:
   a. To increase the Equity
   b. To reduce the debt
2. **Assuming that the Debt equity ratio is 1:2, state giving reason whether the ratio will improve, decline or will have no change if equity shares are issued for cash.**

   Ans. It will decrease the ratio as Equity increases without change in the debt.
3. **State the satisfactory ratio of Current ratio and Liquid Ratio**

   Ans. The Standard Current ratio is 2:1 whereas Ideal Liquid ratio is 1:1.111
4. **Current ratio of a firm is 2:1. State whether ‗Purchase of goods for cash‖ will improve, decrease or will not have any change in the ratio**

   Ans. It will not change the ratio as stock increases and cash decreases.
5. **Define ―ratio Analysis‖**

   Ans. Ratio Analysis refers to the process of computing, determining and explaining the relationship between the component items of financial statements in terms of ratios.
6. **A company has a current ratio of 4:1 and Quick ratio is 2.5;1. Assuming that the inventories are Rs 22500, find out total current assets and current liabilities.**

   Ans. Current ratio ---4:1

   Quick ratio ---2.5:1

   Inventory =4-2.5=1.5

   If inventory is 1.5, then Current assets =4

   If inventory = 22500, then current assets = 4 × 22500/1.5 =60,000

   Current Liabilities = 60,000/4 = Rs 15000.
7. **From the following, calculate stock turnover ratio—**

   Net Sales –Rs 2,00,000

   Gross Profit = 25%

Opening stock = 5000

Closing stock : 15000

Ans – Stock Turnover ratio = Cost of goods sold/Average stock

Cost of sales= sales-gross profit

Cost of sales = 2,00,000 – 50,000 = 1,50,000

Average stock = $x = \frac{-b \pm \sqrt{b^2 - 4ac}}{2a}$ = 20,000/2 =10,000

1,50,000/10,000 = 15 times.

8. **Calculate Gross profit and sales—**

   Average stock = Rs 80,000

   Stock turnover ratio = 6 times

   Selling price = 25% above cost

   Ans. Stock Turnover ratio = cost of sales/average stock

   6 = cost of sales/80,000

   Cost of sales = 80,000× 6 = 4,80,000

   Gross profit = 4,80,000 × 25/100 = 1,20,000

   Sales = Cost of sales + Gross Profit

   4,80,000 + 1,20,000 = Rs 6,00,000

9. **A Company made credit sales of Rs 7,20,000 during the year. If the collection period is 50 days and the year is assumed to be of 360 days. Calculate –**
   a. **Average Debtors**
   b. **Debtors Turnover ratio c)Opening and Closing Debtors if the closing Debtors are Rs 10,000 more than the opening Debtors.**

   Ans. Credit sales per day = 7,20,000/360 = Rs 2000 per day.

   Average Debtors = 2000 X 50 days = Rs 1,00,000

   Debtors Turnover ratio = Net credit sales/Average Debtors

   = 7,20,000/1,00,000 = 7.2 times.

   Let the Opening Debtors be "x"

   Closing Debtors = "x" + 10,000"

   Total Debtors = x + x + 10,000 = 2,00,000

   = 2x + 10,000 = 2,00,000

   = 2x = 1,90,000

   x = 95,000 (Opening Debtors = 95000)

Closing Debtors = 95000 + 10000 = Rs 1,05,000112

10. **Calculate Operating ratio—**

	Rs
Net Sales =	5,40,000
Net Purchases	3,10,000
Opening Stock	75,000
Direct expenses	32,000
Closing Stock	50,000
Selling expenses	25,000
Distribution expenses	15,000

Ans. Operating ratio = Cost of sales +Operating expenses/Net sales *100
Cost of sales = Opening stock + Net purchases + direct expenses-closing stock
= 75000 + 3,10,000+32,000-50,000 = 3,67,000
Operating expenses = Selling expenses + Distribution expenses
= 25000+15000 = 40,000
Operating ratio = 3,67,000+40,000/5,40,000 X 100 = 75.37%

11. **Net profit after Interest but before tax Rs 1,40,000**
15% Long term debt : Rs 4,00,000
Shareholders fund : Rs 2,40,000
Tax rate : 50% , Calculate Return on capital employed.
Ans. Return on capital employed = Net profit before interest and tax/Capital employed X 100
Interest on long term debt = 15/100 X 4,00,000 = 60,000
Net Profit before Interest = 1,40,000 + 60,000 = 2,00,000
Capital employed = Debt + Shareholders fund
= 4,00,000 + 2,40,000 = 6,40,000
Return on Capital employed = 2,00,000/6,40,000 X 100 = 31.25%

12. **Calculate Inventory Turnover Ratio-**
Sales = Rs 4,00,000

Average stock – Rs 55,000

Gross Loss ratio =10%

Ans. Inventory Turnover ratio = Cost of sales/Average stock

=4,40,000/55000 = 8 times .

13. **Calculate Fixed Assets turnover ratio-**

Cost of goods sold : Rs 16,80,000

Gross profit = Rs 5,60,000

Capital employed = Rs43,00,000

Working capital = Rs 80,000

Ans. Fixed assets turnover ratio = Net sales/ Net fixed assets

Net sales = Cost of goods sold + Gross profit

= 16,80,000 + 5,60,000 = 22,40,000

Capital employed = Net fixed assets + Net working Capital

4,00,000 = Net Fixed assets + 80,000

Net Fixed assets = 3,20,000

Fixed assets turnover ratio = 22,40,000/3,20,000 = 7 times113

14. **Calculate Current Asset Turnover ratio if –**

Cost of goods sold = Rs 7,50,000

Gross profit = Rs 2,10,000

Total Assets = Rs 3,00,00

Capital employed = Rs 3,00,000

Working capital = Rs 60,000

Ans. Current Assets Turnover ratio = Net Sales/ Net Current assets

Net sales = Cost of sales + Gross Profit

= 7,50,000 + 2,10,000 = 9,60,000

Capital Employed = Net Fixed +Net Working Capital

Net Fixed Assets = Capital employed – Net working Capital

= 3,00,000 – 60,000 = 2,40,000.

Total Assets = Rs 3,00,000

Current Assets = Total assets – Fixed assets

= 3,00,000 – 2,40,000 = 60,000

Current Assets turnover ratio = Net Sales/Net current Assets

= 9,60,000/60,000 = 16 times.

15. **From the following information calculate** =

a) Debt equity ratio

b) Total Assets to Debt ratio

c) Proprietory ratio

Equity share capital = **Rs 20,00,000**

Reserves and Surplus = **Rs 12,00,000**

12% Debentures = **Rs 10,00,000**

Bank Loan = **Rs 8,00,000**

Current Liabilities = **Rs 5,00,000**

Fixed Assets = **Rs 25,00,000**

Goodwill = **Rs 4,00,000**

Current Assets = **Rs 18,00,000**

Ans.a) Debt Equity Ratio = Debt/Equity

Debt = 12% Debentures + Bank Loan

= 10,00,000 + 8,00,000

= 18,00,000

Equity = Equity share capital + Reserves and Surplus

= 20,00,000+12,00,000

= Rs 32,00,000

Debt / Equity = 18,00,000/32,00,000 = 0.56:1

b) Total Assets to Debt ratio = Total Assets/Long term Debt

Total Assets = Fixed assets + Goodwill + Current assets

= 25,00,000 + 4,00,000 + 18,00,000 = Rs 47,00,000

Long Term Debt = 12% Debentures + Bank Loan = 18,00,000

Total Assets to Debt Ratio = 47,00,000/18,00,000 = 2.6:1

c) Proprietory Ratio = Equity/Total Assets

= 32,00,000/47,00,000 = 0.68 or 68%

Important Questions Part-2
Statement Analysis Tools and Accounting Ratios

1. **What is meant by 'Accounting Ratios'?**
   Ans. Accounting Ratios are mathematical expression of the relationship between two accounting figures.
2. **What do you mean by 'Ratio Analysis'?**
   Ans. Ratio Analysis is a tool to measure the financial status (financial strengths and weaknesses) of a business firm.
3. **Describe any two limitations of Ratio Analysis.**
   Ans.
   1. Price level changes are not reflected.
   2. Personal bias and different accounting policies also affect the calculation of ratios.
4. **Quick Ratio of a company is 1.5:1. State giving reason whether the ratio will improve, decline or not change on payment of dividend by the company.**
   Ans. Ratio will improve because both liquid assets and current liabilities will reduce.
5. **The Debt Equity Ratio of a company is 0.8:1. State whether the long term loan obtained by the company will improve decrease or not change the ratio.**
   Ans. There is increase in long term debts so Debt Equity Ratio will improve.
6. **The Stock Turnover Ratio of a Company is 3 Times. State giving reason, whether the ratio improves, declines or does not change because of increase in the value of closing stock by Rs. 5,000.**
   Ans. There is increase in the value of closing stock it means it will decrease Revenue from operation or sales volume hence Stock Turnover Ratio will decline.
7. **The Current Ratio of a company is 3:1. State with reason whether the payment of Rs. 20,000 to the creditors will increase, decrease or not change the ratio.**
   Ans. Current Assets & Liabilities both will decrease hence it will improve the ratio.
8. **State with reason whether repayment of long term loan will result in increase or decrease or no change in debt equity ratio.**
   Ans. Due to decrease in long term debts, Debt Equity Ratio will decrease.
9. **The Gross Profit Ratio of a company is 50%. State with reason whether the decrease**

in rent received by Rs. 15,000 will increase, decrease or not change the ratio.

Ans. Rent received Rs. 15,000 does not affect the gross profit. It may affect net profit of the company but not the gross profit.

10. **The Debtor Turnover ratio of a company is 6 Times. State with reason whether the ratio will improve, decline or not change due to increase in the value of closing inventory by Rs. 50,000.**

    Ans. Ratio will remain unchanged because increase in closing inventory does not affect the net credit sales and average debtors.

11. **The Debt Equity Ratio of VK Limited is 1: 2. What is the affect of conversion of debentures into preference shares on this ratio?**

    Ans. Conversion of debentures into preference shares will decrease the ratio because it will reduce long term debts but at the same time increase the shareholders funds.

12. **What do the Liquidity Ratios indicate?**

    Ans. Liquidity Ratios are calculated to judge the short-term solvency of the business. It is helpful in assessing the short-term financial strength of a business firm.

13. **What do Solvency Ratios indicate?**

    Ans. Solvency Ratios are calculated to judge the long-term solvency of the business. It indicates the ability of a business firm to meet its long term liabilities.

14. **What do Activity or Turnover Ratios indicate?**

    Ans. Activity or Turnover Ratios are calculated to judge the efficiency or performance of a business firm with which it uses its available resources.

15. **What do Profitability Ratios indicate?**

    Ans. Profitability Ratios are calculated to judge the profitability of a business. It indicates the returns generated by a business on sales and investments.

16. **What does 'Debt Equity Ratio' indicates?**

    Ans. Debt Equity Ratio indicates the relationship between long-term debts and shareholders' funds.

17. **What does 'Current Ratio' indicates?**

    Ans. Current Ratio indicates the relationship b/w current assets & current liabilities. This ratio is calculated to assess the ability of the firm to meet its current obligations.

18. **What does 'Quick Ratio' indicates?**

    Ans. Quick Ratio indicates the relationship between quick assets and current liabilities. This ratio is calculated by dividing the quick assets by current liabilities.

19. **Define working capital.**
    Ans. The capital of a business that is used in its day-to-day trading operations. It is the excess of current assets over current liabilities.
20. **How do we calculate shareholders funds?**
    Ans. Shareholders' Funds can be calculated as follows:
    Share Capital (Equity Share Capital, Pref. Share Capital) + Reserves and Surplus + Money received against Share Warrant + Share application money pending allotment + Deferred Tax Liabilities (if any) - Deferred Tax Liabilities (if any) - Unamortized expenses (Fictitious Assets, if any)
21. **What does 'Total Asset to Debt Ratio' indicates?**
    Ans. Total asset to debt ratio indicates the relationship between total assets and long term debts. Higher debt equity ratio indicates higher safety to the external funds providers.
22. **What does 'Proprietary Ratio' indicates?**
    Ans. Proprietary Ratio compares proprietor's fund with the total assets of an enterprise. In simple words, proprietary ratio establishes the relationship b/w proprietors' funds (shareholders funds) & total assets (except Deferred Tax assets & unamortized expense/loss).
23. **What does 'Interest Coverage Ratio' indicates?**
    Ans. 'Interest coverage Ratio' deals with the servicing of interest on loan. It is helpful in assessing the security of interest payable on long term debt. Interest coverage ratio is valuable for debenture holders & for long term funds providers. It explains the relationship b/w net profit before interest and tax & the interest payable on long term debts.
24. **What does 'Inventory (stock) Turnover Ratio indicates?**
    Ans. Inventory Turnover Ratio expresses the relationship between 'Cost of Revenue from Operations' (cost of goods sold) and average inventory carried during the accounting period. It determines the number of times stock is turned in sales during the year.
25. **What does 'Debtors or Trade Receivables Ratio' indicates?**
    Ans. Debtors Turnover Ratio or Trade Receivables Turnover Ratio indicates the relationship between net credit sales and the debtors or book debts. The main purpose of this ratio is to measure the company's credit control and shows that how much cash is tied up with the debtors or book debts.
26. **What does 'Creditors Turnover Ratio or Trade Payables Ratio' indicates?**
    Ans. This ratio indicates the pattern of payment of accounts payable, as we know that

accounts payable are concerned with credit purchase, so this ratio establishes a relationship between credit purchase and accounts payable.

27. **What does 'Operating Ratio' indicates?**

    Ans. Operating Ratio indicates the relationship b/w 'Cost of Revenue from Operations' (cost of goods sold) and 'Operating Expenses' with 'Revenue from Operations' (net sales). Operating expenses are concerned with the operating activities of the business.

28. **Define operating expenses and operating cost.**

    Ans. Operating expenses are those expenses which are concerned with the operating activities of the business. Operating Cost includes 'Cost of revenue from operations' (cost of goods sold) and 'Operating Expenses'.

29. **Give some examples of Non-operating expenses.**

    Ans. Non-operating expenses:

    - Finance cost
    - Depreciation
    - Loss on sale of fixed assets
    - Loss by fire, theft and embezzlement etc.

30. **What do mean by Non-operating Incomes?**

    Ans. Non Operating Incomes: These incomes are not the part of operating activities. Some examples of non-operating incomes are given below:

    - Dividend Received
    - Interest Received on Investment
    - Profit on Sale of Fixed Assets

31. **What does 'Operating Profit Ratio' indicates?**

    Ans. Operating profit ratio is calculated to assess the operating margin. It establishes the relationship between 'Operating Profit' and 'Revenue from Operations' (net sales).

32. **What is meant by 'Net Profit Ratio'?**

    Ans. Net Profit Ratio indicates the relationship between 'Net Profit' and 'Net Revenue from Operations' (sales). In simple words, net profit ratio measures the net profit margin in relation to sales. It is also helpful in measuring the overall efficiency of business.

33. **What does 'Return on Investment' indicates?**

    Ans. This ratio explains the overall utilization of funds by a business firm. It also indicates the relationship of profit with capital employed. Capital employed means long term funds employed in a business.

Important Questions Part-3
Statement Analysis Tools and Accounting Ratios

1: Working Capital Rs. 36,000; Current Ratio 2.8:1; Inventory Rs. 16,000. Calculate Current Assets, Current Liabilities and Quick Ratio.

Solution :

Current Ratio = $\frac{Current\ Assets}{Current\ Liabilities} = \frac{2.8}{1}$

Let the Current Liabilities be Rs. X

The Current Assets will be Rs. 2.8X

Working Capital = Current Assets – Current Liabilities

36,000 = 2.8X – X = 1.8 X

X = $\frac{36,000}{1.8}$ = Rs. 20,000

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

Liquid Assets = Current Assets – Inventory

Rs. 56,000 – 16,000 = Rs. 40,000

Quick Ratio = $\frac{Rs. 40,000}{Rs. 20,000}$ = 2:1

2: Current Assets of a company are Rs. 15,00,000. Its current ratio 2.5 and liquid Ratio is 0.85. Calculate Current liabilities, Liquid Assets and Inventory.

Solution :

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

2.5= $\frac{Rs.15,00,000}{Current\ Liabilities}$

Current Liabilities = $\frac{Rs.15,00,000}{2.5}$ = Rs. 6,00,000

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

0.85 = $\frac{Liquid\ Assets}{Rs.6,00,000}$

Liquid Assets = $Rs.6,00,000 \times 0.85$ = Rs. 5,10,000

Inventory = Current Assets – Liquid Assets

= Rs. 15,00,000 – Rs. 5,10,000

= Rs. 9,90,000

3: Calculate 'Debt-Equity Ratio' from the following information:

Total Assets : Rs. 3,50,000

Total Debt : Rs. 2,50,000

Current Liabilities : Rs. 80,000

Solution :

Debt Equity Ratio = $\frac{Debt\ or\ Long\ Term\ Liabilities}{Equity\ or\ Shareholder's\ Funds}$

Debt = Total Debt – Current Liabilities

= Rs. 2,500,000-Rs. 80,000 = Rs. 1,70,000

Equity = Total Assets – Total Debts

= Rs. 3,50,000 – Rs. 2,50,000 = Rs. 1,00,000

Debt – Equity Ratio = $\frac{Rs.1,70,000}{Rs.1,00,000}$ = 1.7:1

4: From the following information calculate Proprietary Ratio and Total Assets to Debt Ratio

Balance Sheet of ABC Ltd.

As at

Particulars	Note No.	Figure for Current Years (Rs.)
1. EQUITY AND LIABILITIES (1) Shareholders' funds (a) Share capital (b) Reserves and surplus (2) Non-current Liabilities Long-term borrowings (3) Current liabilities Trade payables Total		 4,50,000 1,80,000 75,000 45,000 7,50,000
II. ASSETS (1)Non-current assets (a)Fixed assets (b)Non-current investments (2)Current Assets Inventories		 2,25,000 1,50,000

Total	7,50,000

Solution :

Proprietary Ratio = $\frac{Equity\ or\ Shareholders'\ Funds}{Total\ Assets}$

Shareholders' Funds = Share Capital + Reserves and Surplus = Rs. 4,50,000+Rs.1,80,000 = Rs. 6.30.000

Proprietary Ratio = $\frac{Rs.6,30,000}{Rs.7,50,000}$ = 0.84 : 1

Total Assets to Debt Ratio = $\frac{Total\ Assets}{Debts\ or\ Long\ Term\ Liabilities}$

= $\frac{Rs.7,50,000}{Rs.75,000}$ = 10

Total Assets to Debt Ratio = 10 : 1

5: Calculate Interest Coverage Ratio from the following information

Net Profit (after taxes) = Rs. 1,00,000

Fixed interest charges on long term borrowing = Rs. 20,000

Rate of Income Tax 50%

Solution :

Interest Coverage Ratio = $\frac{Net\ Profit\ before\ Interest\ \&\ Tax}{Fixed\ Interest\ Charges}$

Interest Coverage Ratio = $\frac{Rs.1,00,000 + Rs.1,00,000(tax) + Rs.20,000}{Rs.20,000}$

= $\frac{Rs.20,000}{Rs.20,000}$ = 11 Times

6: From the following information calculate interest coverage ratio:

Rs.

10,000 equity shares to Rs. 10 each 1,00,000

8% Preference Shares 70,000

10% Debentures 50,000

Long term Loans from Banks 50,000

Interest on longs term loans from bank 5,000

Profit after tax 75,000

Tax 9,000

Solution :

Interest Coverage Ratio = $Rs.50,000 \times \frac{10}{100}$ = Rs. 5000

Profit before Interest & Tax = Profit after tax + Interest on debentures + Interest Long term Loans

= Rs. 75,000+9,000+5000+5000 = Rs. 94,000

Interest Coverage Ratio = $\frac{Net\ Profit\ before\ Interest\ \&\ Tax}{Fixed\ Interest\ Charges}$

= $\frac{94,000}{10,000}$ = 9.4 Times

7: For the following information compute Debt-Equity Ratio :

Rs.

Long term borrowing 8,00,000

Long term provisions 4,00,000

Current Liabilities 2,00,000

Non Current Assets 14,40,000

Current Assets 3,60,000

Solution :

Debt Equity Ratio = $\frac{Debt}{Equity}$

Debt = Long term borrowing + Long term Provision

= Rs. 8,00,000+4,00,000

= Rs. 12,00,000

Equity = Non Current Assets + Current Assets – Debt – Current Liabilities

= Rs. 14,40,000+360,000-12,00,000-2,00,000

= Rs. 18,00,000-14,00,000

= Rs. 4,00,000

Debt Equity Ratio = $\frac{12,00,000}{4,00,000}$ = 3 : 1

8: Cost of Revenue from Operations is Rs. 5,00,000. The opening stock is Rs. 40,000 and the closing stock is Rs. 60,000 (at cost). Calculate inventory turnover ratio.

Solution :

Inventory Turnover Ratio = $\frac{Cost\ of\ Revenue\ from\ operations}{Average\ Stock}$

Average Stock = $\frac{Opening\ Stock + Closing\ stock}{2}$

= Rs. 40,000+ $\frac{Rs.60,000}{2}$ = Rs. 50,000

Inventory Turnover Ratio = $\frac{Rs.5,00,000}{Rs.50,000}$ = 10 Times

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9: Cost of Revenue from operation = Rs. 2,00,000

Inventory Turnover Ratio = Rs. 8 Times

Inventory in the beginning is 1.5 times more than the inventory at the end.

Calculate values of opening and closing inventory.

Solution :

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

Average Inventory = $\frac{Rs.2,00,000}{8} = Rs.25,000$

Average Inventory = Rs. 25,000 = $\frac{Opening\ Inventory + Closing\ Inventory}{2}$

Opening Inventory +Closing Inventory

= 25000×2

= Rs. 50,000

Let the closing Inventory = x

Then opening Inventory will be = x+1.5x = 2.5x

Hence, x+2.5x = 50000

3.5x = 50,000

X = $\frac{Rs. 50,000}{2.5} = 14,286$

Closing Inventory = Rs. 14,286

Opening Inventory= $14,286 \times 2.5$ = Rs. 35,714

10: Calculate Debtors Turnover Ratio if Closing Debtors are Rs. 40,000; Opening Debtors Rs. 60,000; Cash Sales is 25% of Credit Sales and Total Sales are Rs. 2,00,000.

Solution :

Debtors Turnover Ratio = $\frac{Net\ Credit\ Sates\ /\ Net\ Credit\ Revenue\ from\ Operations}{Average\ Debtors\ /\ Average Trade\ Receivables}$

Cash Sales = 25% of Credit Sales

Let the Credit Sales be Rs. X

Then Cash Sales is 25% of X

= $X \times \frac{25}{100} = \frac{X}{4}$

Total Sales = Cash Sales + Credit Sales

= $X + \frac{X}{4} = \frac{5X}{4}$

Rs. 2,00,000

= $\frac{5X}{4}$

X = Credit Sales

= $Rs. 2,00,000 \times \frac{4}{5} = Rs. 1,60,000$

Average Debtors

= $\frac{(Opening\ Debtors\ +\ Closing\ Debtors)}{2}$

$= \ 60,000 + \frac{40,000}{2} = 50,000$

Debtors Turnover Ratio

= $\frac{1,60,000}{50,000} = 3.2\ Times$

11: Compute Working Capital Turnover Ratio from the following information:

Rs.

Cash Sales 1,30,000

Credit Sales 3,80,000

Sales Return 10,000

Liquid Assets 1,40,000

Inventory 90,000

Current Liabilities 1,05,000

Solution:

Working Capital Turnover Ratio

= $\frac{Revenue\ from\ Operations\ /\ Net\ Sales.}{Net\ Working\ Capital}$

Net Sales = Cash Sales + Credit Sales – Sales Return

= 1,30,000+3,80,000-10,000 = Rs. 5,00,000

Working Capital = Current Assets – Current Liabilities

Current Assets = Liquid Assets + Inventory

= 1,40,000+90,000 = Rs. 2,30,000

Working Capital = 2,30,000 – 1,05,000 = Rs. 1,25,000

Working Capital Turnover Ratio

$$= \frac{5,00,000}{1,25,000} = 4\,Times$$

12: Calculate 'Gross Profit Ratio' from the following information:

Rs.

Net Revenue from Operations 80,000

Cost of Revenue from Operations 60,000

Operating Expenses 10,000

Indirect Expenses 60,000

Solution :

Gross Profit Ratio = $\frac{Gross\ Profit}{Net\ Sales\ /\ Net\ Revenue\ from\ Operations} \times 100$

= Rs. 80,000-60,000 = Rs. 20,000

13: Calculate 'Operating Profit Ration' and 'Operating Ratio' from the following information:

Rs.

Net Revenue from Operations80,000

Cost of Revenue from Operations60,000

Operating Expenses10,000

Indirect Expenses60,000

Solution :

Operating profit Ratio = $\frac{Operating\ Profit}{Net\ Revenue\ from\ Operations} \times 100$

Operating profit = Net Revenue from Operation – Operating Cost

Operating Cost = Cost of Revenue from Operation + Operating Expenses

= Rs. 60,000+10,000 = Rs. 70,000

Operating profit =80,000 -70,000 = Rs. 10,000

Operating profit Ratio = $\frac{10,000}{80,000} \times 100 = 12.5\%$

Operating Ratio = $\frac{Operating\ Profit}{Net\ Revenue\ from\ Operations} \times 100$

= $\frac{70,000}{80,000} \times 100 = 87.5\%$

14: Calculate 'Net Profit ration' from the following Information:

Rs.

Net Revenue from Operations 80,000

Cost of Revenue from Operations 60,000

Operating Expenses 10,000

Indirect Expenses 6,000

Indirect Income 4,000

Solution :

Net Profit Ratio = $\frac{Operating\ Profit}{Net\ Revenue\ from\ Operations}\times 100$

Net Profit = Net Revenue from Operations – Cost of Revenue from operation Operating Expenses – Indirect Expenses + Indirect Income

= Rs. 80,000 – 60,000 – 10,000 – 6,000 + 4,000 = 8,000

Net profit Ratio = $\frac{Gross\ Profit}{Net\ Sales\ /\ Net\ Revenue\ from\ Operations}\times 100$

= $\frac{8,000}{Net\ 80,000}\times 100 = 10\%$

15: Calculate 'Return on Investment' with the following information:

Rs.

Net Profit after interest and Tax2,10,000

Rate of income Tax30%

Shareholders' Funds13,00,000

12% Long term Debts1,00,000

10% Debentures2,00,000

Solution :

Retrun on Investment = $\frac{Net\ Profit\ Interest, Tax\ \&\ Divided}{Capital\ Employed}\times 100$

Profits before Tax

= $\frac{Profits\ after\ Tax}{(100 - Tax\ Rate)}\times 100$

= $\frac{2,10,000}{(100-30)}\times 100 = \frac{2,10,000}{70}\times 100 = 3,00,000$

Profits before Interest, Tax and Dividend = Profits before Tax + Interest on Long Debts + Intere3st on Debentures = 3,00,000 +12,000 + 20,000 = 3,32,000.

Capital Employed = Shareholders' Funds + 12% Long term debts + 10%

Debentures = 13,00,000 +1,00,000 +2,00,000 = 16,00,000.

Returns on Investment

= $\frac{3,32,000}{16,00,000}\times 100 = 20.75\%$

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16 : The Quick ratio of X Ltd. Is 1:1. State with reason which of the following transactions would (i) increase; (ii) decrease or (iii) not change the ratio:

1. Included in the trade payable was a Bill payable of Rs. 3,000 which was met on maturity .

2. Debentures of Rs. 50,000 were converted into Equity Shares.

Solution:

(1) No Change

Reason: Both current Assets and current Liabilities are decreasing with the same amount.

(2) No Change

Reason: Neither current Assets and current Liabilities are decreasing with the same amount.

17: Calculate 'Return on Investment' and 'Debt-Equity Ratio' from the following information:

Rs.

Net Profit after interest and Tax 6,00,000

10 % Debentures 10,00,000

Tax Rate40 %

Capital Employed 80,00,000

Solution:

Retrun on Investment = $\frac{Net\ Profit\ before\ Interest, Tax}{Capital\ Employed} \times 100$

Net Profits before Tax

= $\frac{Net\ Profits\ Tax}{(100 - Tax\ Rate)} \times 100$

= $\frac{6,00,00 \times 100}{(100 - 40)} = Rs. 10,00,000$

Interest on 10 % Debentures

= $Rs. 10,00,000 \times \frac{10}{100} = Rs. 1,00,000$

Net Profit before Interest and Tax = Rs. 10,00,000 + Rs. 1,00,000 = Rs. 11,00,000

Return on Investment

= $\frac{11,00,000}{80,00,000} = 13.75\%$

Debt – Equity Ratio

$$= \frac{Debt}{Equity}$$

Equity = Capital Employed – Debt

= Rs. 80,00,000 – 10,00,000 = Rs. 70,00,000.

Debt Equity Ratio

$$= \frac{10,00,000}{70,00,000} = 1:7$$

= 0.14:1

18: Complete the Balance Sheet of Raj Ltd. From the following information :

Balance Sheet

As at 31st March, 2015

Particulars	Note No.	Amount (Rs.)
1. EQUITY AND LIABILITIES (1) Shareholders' funds (a) Share capital (b) Reserves and surplus (2) Non-current Liabilities - Long-term borrowings (3) Current liabilities - Trade payables Total		- 50,000 14,00,000 1,00,00
II. ASSETS (1)Non-current assets (a)Fixed assets (2)Current Assets (a) Inventories		_ _ 70,000

(b) Trade Receivables (c) Cash and Cash Equivalents Total	_

Additional Information :

1. Current Ratio is 2.5:1

2. Debt-equity Ratio is 2:1

3. Inventory Turnover Ratio is 8 Times

4. Cost of Revenue from operation is Rs. 4,00,000

Solution :

(i) Inventory Turnover Ratio = $\frac{Cost\ of\ Revenue\ from\ Operation}{Inventory}$

8 = $\frac{4,00,000}{Inventory}$

Inventory = $\frac{4,00,000}{8} = Rs.50,000$

(ii) $Current\ Ratio \frac{Current\ Assets}{Current\ Liablities}$

$2.5 \frac{Current\ Assets}{1,00,000}$

Current Assets = $Rs.1,00,000 \times 2.5$

= Rs. 1,30,000

(iii) Debt Equity Ratio = $\frac{Debt}{Equity}$

$$2 = \frac{Rs.14,00,000}{Equity}$$

$$Equity = \frac{Rs.14,00,000}{2}$$

= Rs. 7,00,000

Equity = Share Capital + Reserves and Surplus

Rs. 7,00,000 = Share Capital + 50,000

Share Capital = Rs. 7,00,000-50,000 = Rs. 6,50,000

Balance Sheet

As at 31st March, 2015

Particulars	Note No.	Amount (Rs.)
1. EQUITY AND LIABILITIES (1) Shareholders' funds (a) Share capital (b) Reserves and surplus (2) Non-current Liabilities Long-term borrowings (3) Current liabilities Trade payables		 6,50,000 50,000 14,00,000 1,00,00
Total		22,00,000
II. ASSETS (1)Non-current assets (a)Fixed assets (2)Current Assets (a) Inventories (b) Trade Receivables		 19,50,000 50,000 70,000 1,30,000

(c) Cash and Cash Equivalents Total	22,00,000