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शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting Ratios H.W

Question 16:

You are able to collect the following information about a company for two years:

	2015-16	2016-17
Trade receivables on Apr. 01	Rs. 4,00,000	Rs 5,00,000
Trade receivables on Mar. 31		Rs 5,60,000
Stock in trade on Mar. 31	Rs. 6,00,000	Rs 9,00,000
Revenue from operations (at gross profit of 25%)	Rs. 3,00,000	Rs 24,00,000

Calculate Inventory Turnover Ratio and Trade Receivables Turnover Ratio.

ANSWER:

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

or,

$$\begin{aligned}\text{Cost of Revenue from Operations} &= \text{Revenue from Operations} - \text{Gross Profit}\\ &= 24{,}00{,}000 - 6{,}00{,}000\\ &= 18{,}00{,}000\end{aligned}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Inventory in the beginning} + \text{Inventory at the end}}{2}\\ &= \frac{6,00,000 + 9,00,000}{2}\\ &= 7{,}50{,}000\end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{18,00,000}{7,50,000} = 2.4 \text{ times}$$

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

$$\text{Average Trade Receivables} = \frac{\text{Trade Receivables in the beginning} + \text{Trade Receivables at the end}}{2}$$

$$= \frac{5,00,000 + 5,60,000}{2}$$

$$= 5,30,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{24,00,000}{5,30,000} = 4.53 \text{ times}$$

Note: It has been assumed that all sales are credit sales

Question 17:

From the following Balance Sheet and other information, calculate following ratios:

(i) Debt-Equity Ratio (ii) Working Capital Turnover Ratio (iii) Trade Receivables Turnover Ratio

Balance Sheet as at March 31, 2017

Particulars	Note No.	Rs.
I. Equity and Liabilities:		
1. Shareholders' funds		
a) Share capital		10,00,000
b) Reserves and surplus		9,00,000
2. Non-current Liabilities		
Long-term borrowings		12,00,000
3. Current Liabilities		
Trade payables		5,00,000
Total		**36,00,000**
II. Assets		

1. Non-current Assets		
a) Fixed assets		
Tangible assets		18,00,000
2. Current Assets		
a) Inventories		4,00,000
b) Trade Receivables		9,00,000
c) Cash and cash equivalents		5,00,000
Total		**36,00,000**

Additional Information: Revenue from Operations Rs. 18,00,000

ANSWER:

1. Debt-Equity Ratio

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

$$= \frac{12,00,000}{19,00,000}$$

$$= 0.63 : 1$$

Debt = Long Term Borrowings = Rs 12,00,0000

Equity = Share Capital + Reserve and Surplus

= 10,00,000 + 9,00,000

= Rs 19,00,000

2. Working Capital Turnover Ratio

$$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Working Capital}}$$

$$= \frac{18,00,000}{13,00,000}$$

$$= 1.39 \text{ times}$$

Revenue from Operations = Rs 18, 00,000

Working Capital = Current Assets – Current Liabilities

= 18,00,000 – 5,00,000

= Rs 13,00,000

3. Trade Receivables Turnover Ratio

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$
$$= \frac{18,00,000}{9,00,000}$$
$$= 2 \text{ times}$$

Net Credit Sales = Rs 18,00,000
Average Trade Receivables = Rs 9,00,000
Notes:
1. Revenue from Operations are assumed to be revenue generated from credit sales.
2. The amount of trade receivables given in the Balance Sheet is assumed to be Average Trade Receivables.

Question 18:

From the following information, calculate the following ratios:

i) Quick Ratio

ii) Inventory Turnover Ratio

iii) Return on Investment

	Rs.
Inventory in the beginning	50,000
Inventory at the end	60,000
Revenue from operations	4,00,000
Gross Profit	1,94,000
Cash and Cash Equivalents	40,000
Trade Receivables	1,00,000
Trade Payables	1,90,000
Other Current Liabilities	70,000
Share Capital	2,00,000
Reserves and Surplus	1,40,000

(Balance in the Statement of Profit & Loss A/c)

ANSWER:

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

$$\begin{aligned}\text{Quick Assets} &= \text{Cash} + \text{Debtors}\\ &= 40,000 + 1,00,000\\ &= 1,40,000\end{aligned}$$

$$\begin{aligned}\text{Current Liabilities} &= \text{Creditors} + \text{Outstanding Expenses}\\ &= 1,90,000 + 70,000\\ &= 2,60,000\end{aligned}$$

$$\text{Quick Ratio} = \frac{1,40,000}{2,60,000} = 7:13 = 0.54:1$$

(ii)

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\begin{aligned}\text{Cost of Revenue from Operations} &= \text{Revenue from Operations} - \text{Gross Profit}\\ &= 4,00,000 - 1,94,000\\ &= 2,06,000\end{aligned}$$

$$\begin{aligned}\text{Average Inventory} &= \frac{\text{Inventory in the beginning} + \text{Inventory at the end}}{2}\\ &= \frac{50,000 + 60,000}{2}\\ &= 55,000\end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{2,06,000}{55,000} = 3.74 \text{ times}$$

$$\text{Return on Investment} = \frac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$\begin{aligned}\text{Capital Employed} &= \text{Equity Share Capital} + \text{Profit and Loss}\\ &= 2,00,000 + 1,40,000\\ &= 3,40,000\end{aligned}$$

$$\text{Return on Investment} = \frac{1,40,000}{3,40,000} \times 100 = 41.17\%$$