ACCOUNTS

NCERT - NCERT ACCOUNTS(HINGLISH)

ACCOUNTING RATIOS

Illustration 1

1. Calculate Current Ratio the following information :

Particulars	Rs.
Trade receivables	50,000
Advance tax	4,000
Cash and cash qquivalents	30,000
Trade payable	1,00,000
Short - yerm borrowing(bank overdraft)	4,00

Illustration 2

1. Calculate quick ratio from the information given in illustration 1.

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Illustration 3

1. Calculate 'Liquidity Ratio' form the following information:

$$\begin{array}{lcl} \text{Current liabilities} & = & Rs.50,000 \\ \text{Current assets} & = & Rs.80,000 \\ \text{Inventories} & = & Rs.20,000 \\ \text{Advance tax} & = & Rs.5,000 \\ \text{Prepaid expenses} & = & Rs.5,000 \end{array}$$

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Illustration 4

1. X Ltd. , has a current ratio of 3.5:1 and quick ratio of 2:1 If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current assets and current liabilities.

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Illustration 5

1. Calculate the current ratio form the follwing information :

Total assets = Rs. 3,00,000

Non-current liabilities = Rs. 80,000

Shareholders' Funds = Rs. 2,00,000

Non-Current Assets = Rs. 1,60,000

Non - current Investments = Rs. 1,00,000

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Illustration 6

1. The current ratio is 2:1 State giving reasons which of the following transactions would improve, reduce and not change the current ratio :

(a) Payment of current liability ,

(b) Purchased goods on credit,

(c) Sale of a computer (Book value : Rs. 4,000) for Rs. 3,000 only ,

(d) Sale of merchandise (goods) costing Rs. Rs. 10,000 for Rs. 11,000,

(e) Payment of dividend.

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Illustration 7

1. From the following balance sheet of ABC Co.Ltd. as on March 31. 2015. Calculate debt equity ratio :

ABC Co. Ltd.
Balance Sheet as at 31 March, 2017

Particulars	Note No.	Amount (Rs.)
I. Equity and Liabilities		
1. Shareholders' funds		
a) Share capital		12,00,000
b) Reserves and surplus		2,00,000
c) Money received against share warrants		1,00,000
2. Non-current Liabilities		
a) Long-term borrowings		4,00,000
b) Other long-term liabilities		40,000
c) Long-term provisions		60,000
3. Current Liabilities		
a) Short-term borrowings		2,00,000
b) Trade payables		1,00,000
c) Other current liabilities		50,000
d) Short-term provisions		1,50,000
		25,00,000
II. Assets		
1. Non-Current Assets		
a) Fixed assets		15,00,000
b) Non-current investments		2,00,000
c) Long-term loans and advances		1,00,000
2. Current Assets		
a) Current investments		1,50,000
b) Inventories		1,50,000
c) Trade receivables		1,00,000
d) Cash and cash equivalents		2,50,000
e) Short-term loans and advances		50,000
		25,00,000

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Illustration 8

Balance Sheet

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholders' funds		
a) Share capital	1	10,00,000
b) Reserves and surplus		1,00,000
2. Non-Current Liabilities		
Long-term borrowings		1,50,000
3. Current Liabilities		1,50,000
		14,00,000
II. Assets		
1. Non-Current Assets		
a) Fixed assets		
- Tangible assets	2	11,00,000
2. Current Assets		
a) Inventories		1,00,000
b) Trade receivables		90,000
c) Cash and cash equivalents		1,10,000
		14,00,000

Notes to Accounts

	Rs.
1. Share Capital	
Equity Share Capital	8,00,000
Preference Share Capital	2,00,000
	10,00,000

1.

Fixed Assets

	Rs.
2. Tangible Assets:	
Plant and Machinery	5,00,000
Land and Building	4,00,000
Motor Car	1,50,000
Furniture	50,000
	11,00,000

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Illustration 9

1. From the following information, calculate Debt Equity Ratio, Total Assets to Debt Ratio, Properietory Ratio and Debt to Capital Employed Ratio :

Balance Sheet as at March 31, 2017

Particulars	Note No.	Rs.
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
		7,00,000
II. Assets		
1. Non-current Assets		
a) Fixed assets		4,00,000
b) Non-current investments		1,00,000
2. Current Assets		2,00,000
		7,00,000

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Illustration 10

1. The debt equity ratio of X Ltd. Is 0.5:1 Which of the following would increase/decrease of not change the debt equity ratio ?

(i) Further issue of equity shares

(ii) Cash received from debtors

(iii) Sale of goods on cash basis

(iv) Redemption of debentures

(v) Purchase of goods on credit.

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Illustration 11

1. From the following details, calculate interest coverage ratio :

Net Profit after tax Rs. 60,000, 50% Long Tax debt 10,00,000, and Tax rate 40%

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Illustration 12

1. From the following information, calculate inventory turnover ratio :

		Rs.
Inventory in the beginning	=	18,000
Inventory at the end	=	22,000
Net purchases	=	46,000
Wages	=	14,000
Revenue from operations	=	80,000
Carriage inwards	=	4,000

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Illustration 13

1. From the following information, calculate inventory turnover ratio:

		Rs.
Revenue from operations	=	4,00,000
Average Inventory	=	55,000
Gross Profit Ratio	=	10 %

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Illustration 14

1. A trader carries an average inventory of Rs. 40,000. His inventory turnover ratio is 8 times. If he sells goods at a profit of 20% on Revenue from operations, find out the gross profit.

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Illustration 15

1. Calculate the Trade receivables turnover ratio from the following information:

	$RS.$
Total Revenue from operations	$4,00,000$
Cash Revenue from operations	20% of Total Revenue from operati
Trade receivables as at 1.4.2016	$40,000$
Trade receivables as at 31.3.2017	$1,20,000$

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Illustration 16

1. Calculate the Trade payables turnover ratio from the following figures:

		$Rs.$
Credit purchases during 2016-17	=	12,00,000
Creditors on 1.4.2016	=	3,00,000
Bills Payables on 1.4.2016	=	1,00,000
Creditors on 31.3.2017	=	1,30,000
Bills Payables on 31.3.2017	=	70,000

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Illustration 17

1. From the following information, calculate –

(i) Trade receivables turnover ratio

(ii) Average collection period

(iii) Trade rayable turnover ratio

(iv) Average payment period

Given :

	$(Rs.)$
Revenue from Operations	$8,75,000$
Creditors	$90,000$
Bills receivable	$48,000$
Bills payable	$52,000$
Purchases	$4,20,000$
Trade debtors	$59,000$

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Illustration 18

1. From the following information, calculate (i) Net assets turnover, (ii) Fixed assets turnover, and (iii) Working capital turnover ratios :

turnover, and (iii) Working capital turnover ratios :

	Amount (Rs.)		Amount (Rs.)
Preference shares capital	4,00,000	Plant and Machinery	8,00,000
Equity share capital	6,00,000	Land and Building	5,00,000
General reserve	1,00,000	Motor Car	2,00,000
Balance in Statement of Profit and Loss	3,00,000	Furniture	1,00,000
15% debentures	2,00,000	Inventory	1,80,000
14% Loan	2,00,000	Debtors	1,10,000
Creditors	1,40,000	Bank	80,000
Bills payable	50,000	Cash	30,000
Outstanding expenses	10,000		

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Illustration 19

1. Following information is available for the year 2016-17, calculate gross profit ratio:

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Illustration 20

1. Given the following information:

	Rs.
Revenue from Operations	3,40,000
cost of Revenue from Operations	1,20,000
Selling expenses	80,000
Administrative Expenses	40,000

Calculate Gross profit ratio and Operating ratio

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Illustration 21

1. Gross profit ratio of a company was 25%. Its credit revenue from operations was Rs. 20,00,000 and its cash revenue from operations was 10% of the total revenue from operations. If the indirect expenses of the company were Rs. 50,000, calculate its net profit ratio.

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Illustration 22

1. From the following details, calculate Return on Investment:

Share Capital : Equity (Rs.10)	Rs. 4,00,000	Current Liabilities	Rs. 1,00,000
12% Preference	Rs. 1,00,000	Fixed Assets	Rs. 9,50,000
General Reserve	Rs. 1,84,000	Current Assets	Rs. 2,34,000
10% Debentures	Rs. 4,00,000		

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Illustration 23

1. Calculate current assets of a company from the following information:

Inventory turnover ratio = 4 times

Inventory at the end is Rs. 20,000 more than the inventory in the beginning.

Revenue from Operations Rs. 3,00,000 and gross profit ratio is 20% of revenue from operations.

Current liabilities = Rs. 40,000

Quick ratio = 0.75 : 1

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Illustration 24

1. The current ratio is 2.5 : 1. Current assets are Rs. 50,000 and current liabilities are Rs. 20,000. How much must be the decline in the current assets to bring the ratio to 2 : 1

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Illustration 25

1. Following information is given by a company from its books of accounts as on March 31, 2017:

Particulars	$Rs.$
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

Calculate:

i) Current Ratio

ii) Liquid Ratio

iii) Debt Equity Ratio

iv) Interest Coverage Ratio

v) Inventory Turnover Ratio

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Illustration 26

1. From the following information calculate (i) Earning per share (ii) Book value per share (iii) Dividend payout ratio (iv) Price earning ratio

Particulars	*Rs.*
70,000 equity shares of Rs 10 each	7,00,000
Net Profit after tax but before dividend	1,75,000
Market price of a share	13
Dividend declared $\circ$ 15 %	

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Questions For Practice Numerical Questions

1. Following is the Balance Sheet of Raj Oil Mills Limited as at March 31, 2017. Calculate current ratio.

Particulars	Rs.
I. Equity and Liabilities:	
1. Shareholders' funds	
a) Share capital	7,90,000
b) Reserves and surplus	35,000
2. Current Liabilities	
Trade Payables	72,000
Total	**8,97,000**
II. Assets	
1. Non-current Assets	
Fixed assets	
– Tangible assets	7,53,000

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2. Following is the Balance Sheet of Title Machine Ltd. as at March 31, 2017.

Particulars	Amount (Rs.)
I. Equity and Liabilities	
1. Shareholders' funds	
a) Share capital	24,00,000
b) Reserves and surplus	6,00,000
2. Non-current liabilities	
Long-term borrowings	9,00,000
3. Current liabilities	
a) Short-term borrowings	6,00,000
b) Trade payables	23,40,000
c) Short-term provisions	60,000
Total	**69,00,000**
II. Assets	
1. Non-current assets	
Fixed assets	
- Tangible assets	45,00,000
2. Current Assets	
a) Inventories	12,00,000
b) Trade receivables	9,00,000
c) Cash and cash equivalents	2,28,000
d) Short-term loans and advances	72,000
Total	**69,00,000**

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3. Current Ratio is 3.5 : 1. Working Capital is Rs. 90,000. Calculate the amount of Current Assets and Current Liabilities.

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4. Shine Limited has a current ratio 4.5 : 1 and quick ratio 3 : 1, if the inventory is 36,000, calculate Current Liabilities and Current Assets.

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5. Current Liabilities of a company are Rs. 75,000. If current ratio is 4:1 and Liquid Ratio is 1 : 1, calculate value of Current Assets, Liquid Assets and Inventory.

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6. Handa Ltd. has inventory of Rs. 20,000. Total liquid assets are Rs. 1,00,000 and quick ratio is 2 : 1. Calculate current ratio.

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7. Calculate debt-equity ratio from the following information:

Total Assets	$Rs. 15,00,000$
Current Liabilities	$Rs.6,00,000$
Total Debts	$Rs. 12,00,000$

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8. Calculate Current Ratio if: Inventory is Rs. 6,00,000, Liquid Assets Rs. 24,00,000, Quick Ratio 2 : 1.

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9. Compute Inventory Turnover Ratio from the following information:

Net Revenue from Operations	$Rs.2,00,000$
Gross Profit	$Rs.50,000$
Inventory at the end	$Rs.60,000$
Excess of inventory at the end over inventory in the beginning	$Rs.20,000$

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10. Calculate following ratios from the following information:

(i) Current ratio (ii) Liquid ratio (iii) Operating Ratio (iv) Gross profit ratio

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11. From the following information calculate:

(i) Gross Profit Ratio (ii) Inventory Turnover Ratio (iii) Current Ratio (iv) Liquid Ratio (v) Net Profit Ratio (vi) Working Capital Ratio:

Revenue from Operations	$Rs.25,20,000$
Net Profit	$Rs. 3,60,000$
cost of Revenue from Operations	$Rs. 19,20,000$
Long-term Debts	$Rs. 9,00,000$
Trade Payables	$Rs. 2,00,000$
Average Inventory	$Rs.8,00,000$
Current Assets	$Rs. 7,60,000$
Fixed Assets	$Rs. 14,40,000$
Current Liabilities	$Rs. 6,00,000$
Net Profit before Interest and Tax	$Rs. 8,00,000$

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12. Compute Gross Profit Ratio, Working Capital Turnover Ratio, Debt Equity Ratio and Proprietary Ratio from the following information

Paid-up Share Capital	$Rs.5,00,000$
Current Assets	$Rs.\ 4,00,000$
Revenue from Operations	$Rs.10,00,000$
13 % Debentures	$Rs.2,00,000$
Current Liabilities	$Rs.2,80,000$
cost of Revenue from Operations	$Rs.6,00,000$

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13. Calculate Inventory Turnover Ratio if:

Inventory in the beginning is Rs. 76,250, Inventory at the end is 98,500, Gross Revenue from Operations is Rs. 5,20,000, Sales Return is Rs. 20,000, Purchases is Rs. 3,22,250.

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14. Calculate Inventory Turnover Ratio from the data given below:

Inventory in the beginning of the year	$Rs.\ 10,000$
Inventory at the end of the year	$Rs.5,000$
Carriage	$Rs.2,500$
Revenue from Operations	$Rs.50,000$
Purchases	$Rs.25,000$

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15. A trading firm's average inventory is Rs. 20,000 (cost). If the inventory turnover ratio is 8 times and the firm sells goods at a profit of 20% on sales, ascertain the profit of the firm.

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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	$Rs.\ 3,00,000$	$Rs.24,00,000$
(at gross profit of 25%)		

Calculate Inventory Turnover Ratio and Trade Receivables Turnover Ratio

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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		
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**

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18. From the following information, calculate the following ratios:

i) Liquid 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)	

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19. From the following, calculate (a) Debt-Equity Ratio (b) Total Assets to Debt Ratio (c) Proprietary Ratio.

Equity Share Capital	$Rs.75,000$
Preference Share Capital	$Rs.25,000$
General Reserve	$Rs.45,000$
Balance in the Statement of Profit & Loss	$Rs.30,000$
Debentures	$Rs.75,000$
Trade Payables	$Rs.40,000$
Outstanding Expenses	$Rs.10,000$

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20. Cost of Revenue from Operations is Rs. 1,50,000. Operating expenses are Rs. 60,000. Revenue from Operations is Rs. 2,50,000. Calculate Operating Ratio.

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21. Calculate the following ratio on the basis of following information:

(i) Gross Profit Ratio (ii) Current Ratio (iii) Acid Test Ratio (iv) Inventory

Turnover Ratio (v) Fixed Assets Turnover Ratio

	Rs.
Gross Profit	50,000
Revenue from Operations	1,00,000
Inventory	15,000
Trade Receivables	27,500
Cash and Cash Equivalents	17,500
Current Liablilites	40,000
Land & Building	50,000
Plant & Machinery	30,000
Furniture	20,000

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22. From the following information calculate Gross Profit Ratio, Inventory Turnover Ratio and Trade Receivable Turnover Ratio.

Revenue from Operations	Rs. 3,00,000
cost of Revenue from Operations	Rs. 2,40,000
Inventory at the end	Rs. 62,000
Gross Profit	Rs. 60,000
Inventory in the beginning	Rs. 58,000
Trade Receivables	Rs. 32,000

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Test Your Understanding I

1. State which of the following statements are True or False.

(a) The only purpose of financial reporting is to keep the managers informed about the progress of operations.

(b) Analysis of data provided in the financial statements is termed as financial analysis.

(c) Long-term borrowings are concerned about the ability of a firm to discharge its obligations to pay interest and repay the principal amount.

(d) A ratio is always expressed as a quotient of one number divided by another.

(e) Ratios help in comparisons of a firm's results over a number of accounting periods as well as with other business enterprises.

(f) A ratio reflects quantitative and qualitative aspects of results.

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Test Your Understanding Ii

1. The following groups of ratios are primarily measure risk:

Option1 liquidity, activity, and profitability

Option2 liquidity, activity, and inventory

Option3 liquidity, activity, and debt

Option4 liquidity, debt and profitability

A. liquidity, activity, and profitability

B. liquidity, activity, and inventory

C. liquidity, activity, and debt

D. liquidity, debt and profitability

Answer: D

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2. The ________ ratios are primarily measures of return:

Option1 liquidity

Option2 activity

Option3 debt

Option4 profitability

A. liquidity

B. activity

C. debt

D. profitability

Answer: D

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3. The ________ of business firm is measured by its ability to satisfy its short-term obligations as they become due:

Option1 activity

Option2 liquidity

Option3 debt

Option4 profitability

A. activity

B. liquidity

C. debt

D. profitability

Answer: B

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4. ________ ratios are a measure of the speed with which various accounts are converted into revenue from operations or cash

Option1 activity

Option2 liquidity

Option3 debt

Option4 profitability

A. activity

B. liquidity

C. debt

D. profitability

Answer: A

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5. The two basic measures of liquidity are:

Option1 inventory turnover and current ratio

Option2 current ratio and liquid ratio

Option3 gross profit margin and operating ratio

Option4 current ratio and average collection period

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

Answer: B

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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

Answer: D

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Test Your Understanding Iii

1. The ________ is useful in evaluating credit and collection policies

.Option1 average payment period

Option2 current ratio

Option3 average collection period

Option4 current asset turnover

A. average payment period

B. current ratio

C. average collection period

D. current asset turnover

Answer: C

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2. The __________ measures the activity of a firm's inventory

Option1 average collection period

Option2 inventory turnover

Option3 liquid ratio

Option4 current ratio

A. average collection period

B. inventory turnover

C. liquid ratio

D. current ratio

Answer: B

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3. The __________ may indicate that the firm is experiencing stock outs and lost sales. :

Option1 average collection period

Option2 inventory turnover

Option3 liquid ratio

Option4 current ratio

A. average payment period

B. inventory turnover ratio

C. average collection period

D. quick ratio

Answer: B

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4. 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

Answer: C

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5. __________ 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

Answer: C

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6. The _________ ratios provide the information critical to the long run operation of the firm

A. liquidity

B. activity

C. solvency

D. profitability

Answer: C

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Do It Yourself

1. Current liabilities of a company are Rs. 5,60,000, current ratio is 2.5:1 and quick ratio is 2:1. Find the value of the Inventories.

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2. Current ratio = 4.5:1, quick ratio = 3:1.Inventory is Rs. 36,000. Calculate the current assets and current liabilities.

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3. Current assets of a company are Rs. 5,00,000. Current ratio is 2.5:1 and Liquid ratio is 1:1. Calculate the value of current liabilities, liquid assets and inventories.

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4. Calculate the amount of gross profit:

$$\begin{array}{lll} \text{Average inventory} & = & Rs.80,000 \\ \text{Inventory turnover ratio} & = & 6 \text{ times} \\ \text{Selling price} & = & 25\% \text{ above cost} \end{array}$$

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5. Calculate Inventory Turnover Ratio:

$$\begin{array}{lll} \text{Annual Revenue from operations} & = & Rs.\ 2,00,000 \\ \text{Gross Profit} & = & 20\% \text{ on cost of Revenue from} \\ \text{Inventory in the beginning} & = & Rs.\ 38,500 \\ \text{Inventory at the end} & = & Rs.41,500 \end{array}$$

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