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(aka yours_amitbhai)

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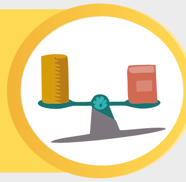

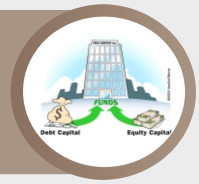

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CA AMIT SHARMA

1 CHAPTER RATIO ANALYSIS

Q.1 All Ratios | PY May 23

Following information and ratios are given in respect of AQUA Ltd. for the year ended 31st March, 2023:

Current ratio	4.0
Acid test ratio	2.5
Inventory turnover ratio (based on sales)	6
Average collection period (days)	70
Earnings per share	₹ 3.5
Current liabilities	₹ 3,10,000
Total assets turnover ratio (based on sales)	0.96
Cash ratio	0.43
Proprietary ratio	0.48
Total equity dividend	₹ 1,75,000
Equity dividend coverage ratio	1.60

Assume 360 days in a year.
You are required to complete Balance Sheet as on 31stMarch, 2023.

Balance Sheet as on 31stMarch, 2023.

Liabilities	₹	Assets	₹
Equity share capital (₹10 per share)	XXX	Fixed assets	XXX
Reserves & surplus	XXX	Inventory	XXX
Long-term debt	XXX	Debtors	XXX
Current liabilities	3,10,000	Loans & advances	XXX
		Cash & bank	XXX
Total	XXX	Total	XXX

Ans. (i) Current Ratio = 4

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = 4$$

$$\frac{\text{Current Assets}}{3{,}10{,}000} = 4$$

Current Assets = ₹ 12,40,000

(ii) Acid Test Ratio = 2.5

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} = 2.5$$

$$\frac{12{,}40{,}000 - \text{Inventory}}{3{,}10{,}000} = 2.5$$

12,40,000 – Inventory = ₹ 7,75,000
Inventory = ₹ 4,65,000

(iii) Inventory Turnover Ratio (on Sales) = 6

$$\frac{\text{Sales}}{\text{Inventory}} = 6$$

$$\frac{\text{Sales}}{4{,}65{,}000} = 6$$

Sales = ₹ 27,90,000

(iv) Debtors Collection Period = 70 days
(Debtors / sales) x 360 = 70
(Debtors / 27,90,000) x 360 = 70
Debtors = ₹ 5,42,500

(v) Total Assets Turnover Ratio (on Sales) = 0.96

$$\frac{\text{Sales}}{\text{Total Assets}} = 0.96$$

$$\frac{27{,}90{,}000}{\text{Total Assets}} = 0.96$$

Total Assets = ₹ 29,06,250

(vi) Fixed Assets (FA) = Total Assets – Current Assets
= 29,06,250 – 12,40,000
Fixed Assets = ₹ 16,66,250

(vii) Cash Ratio = $\frac{\text{Cash}}{\text{Current Liabilities}} = 0.43$

$$\frac{\text{Cash}}{3{,}10{,}000} = 0.43$$

Cash = ₹ 1,33,300

(viii) Proprietary Ratio = $\frac{\text{Proprietar y Fund}}{\text{Total Assets}} = 0.48$

$$\frac{\text{Proprietar y Fund}}{29{,}06{,}250} = 0.48$$

Proprietary Fund = ₹ 13,95,000

(ix) Equity Dividend Coverage Ratio = 1.6 or

$$\frac{\text{EPS}}{\text{DPS}} = \frac{3.5}{\text{DPS}}$$

DPS = ₹ 2.1875

$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of Equity Shares}}$$

$$2.1875 = \frac{1{,}75{,}000}{\text{Number of Equity Shares}}$$

Number of Equity Shares = 80,000
Equity Share Capital = 80,000 x 10 = ₹ 8,00,000
Reserves &Surplus = 13,95,000 - 8,00,000 = ₹ 5,95,000

(x) Loans and Advances = Current Assets - (Inventory + Receivables + Cash & Bank)
= ₹ 12,40,000 - (₹ 4,65,000 + 5,42,500 + 1,33,300) = ₹ 99,200

Balance Sheet as on 31st March 2023

Liabilities	₹	Assets	₹

Equity Share Capital (₹ 10 per share)	8,00,000	Fixed Assets	16,66,250
Reserves & Surplus	5,95,000	Inventory	4,65,000
Long-term debt *(B/F)	12,01,250	Receivables	5,42,500
Current Liabilities	3,10,000	Loans & Advances	99,200
		Cash & Bank	1,33,300
Total	**29,06,250**	**Total**	**29,06,250**

Q.2 All Ratios | PY Nov 22

The following figures are related to the trading activities of M Ltd.

Total assets	₹ 10,00,000
Debt to total assets	50%
Interest cost	10% per year
Direct Cost	10 times of the interest cost
Operating Exp.	₹ 1,00,000

The goods are sold to customers at a margin of 50% on the direct cost

Tax Rate is 30%

You are required to calculate

(i) Net profit margin

(ii) Net operating profit margin

(iii) Return on assets

(iv) Return on owner's equity

Ans. **(i) Computation of Net Profit Margin**

Debt = (10,00,000 x 50%) = ₹ 5,00,000

Interest cost = 5,00,000 x $\left(\frac{10}{100}\right)$ = ₹ 50,000

Direct cost = 50,000 x 10 = ₹ 5,00,000

Sales = 5,00,000 x 150% = ₹ 7,50,000

		(₹)
Gross profit = 7,50,000 – 5,00,000	=	2,50,000
Less: Operating expenses	=	1,00,000
EBIT	=	1,50,000
Less: Interest	=	50,000
EBT	=	1,00,000
Less: Tax @ 30%	=	30,000
PAT	=	70,000
Net profit margin	=	$\left(\frac{70,000}{7,50,000}\right)$ x 100 = 9.33%

(ii) Net Operating Profit margin

Net operating profit margin = $\left(\frac{\text{EBIT}}{\text{Sales}}\right)$ x 100

= $\left(\frac{1,50,000}{7,50,000}\right)$ x 100 = 20%

(iii) Return on Assets

Return on Assets = $\left[\left(\frac{\text{PAT + Interest}}{\text{Total Assets}}\right)\right]$ x 100

$= \left[\left(\frac{1,20,000}{10,00,000}\right) \times 100\right] = 12\%$

(OR)

Return on Assets $= \frac{EBIT}{Assets} \times 100$

$= \frac{1,50,000}{10,00,000} \times 100 = 15\%$

(OR)

$= \frac{70,000}{10,00,000} \times 100 = 7\%$

(OR)

$\left[\frac{1,50,000(1-0.3)}{10,00,000}\right] \times 100 = 10.5\%$

(iv) Return on owner's equity

Return $= \left(\frac{PAT}{\text{owner's equity}}\right) \times 100$

$= \left(\frac{70,000}{5,00,000}\right) \times 100 = 14\%$

Q.3 | All Ratios | PY May 22

Following information and ratios are given for W Limited for the year ended 31st March, 2022:

Equity Share Capital of ₹ 10 each	₹ 10 lakhs
Reserves & Surplus to Shareholders' Fund	0.50
Sales / Shareholders' Fund	1.50
Current Ratio	2.50
Debtors Turnover Ratio	6.00
Stock Velocity	2 Months
Gross Profit Ratio	20%
Net Working Capital Turnover Ratio	2.50

You are required to calculate:

(i) Shareholders' Fund
(ii) Stock
(iii) Debtors
(iv) Current liabilities
(v) Cash Balance.

Ans. (i) **Calculation of Shareholders' Fund:**

$\frac{\text{Reserve \& Surplus}}{\text{Shareholders' Funds}} = 0.5$

$\frac{\text{Reserve \& Surplus}}{\text{Equity Share Capital + Reserve \& Surplus}} = 0.5$

$\frac{\text{Reserve \& Surplus}}{10,00,000 + \text{Reserve \& Surplus}} = 0.5$

Reserve & Surplus = 5,00,000 + 0.5 Reserve & Surplus

0.5 Reserve & Surplus = 5,00,000

Reserve & Surplus = 10,00,000

Shareholders' funds = 10,00,000 +10,00,000

Shareholders' funds = ₹ 20,00,000

(ii) Calculation of Value of Stock:

$$\frac{\text{Sales}}{\text{Shareholders' Funds}} = 1.5$$

Sales = 1.5 × 20,00,000
Sales = 30,00,000
Gross Profit = 30,00,000 × 20% = 6,00,000
Cost of Goods Sold = 30,00,000 – 6,00,000
= ₹ 24,00,000

Stock velocity = 2 months

$$\frac{\text{Average Stock}}{\text{Cost of Goods Sold}} \times 12 = 2$$

$$\frac{\text{Average Stock}}{24,00,000} \times 12 = 2$$

$$\text{Average Stock} = 24,00,000 \times \frac{2}{12}$$

Average stock = ₹ 4,00,000

(iii) Calculation of Debtors:

Debtors Turnover Ratio = 6

$$\frac{\text{Sales}}{\text{Average Debtor}} = 6$$

$$\frac{30,00,000}{\text{Average Debtor}} = 6$$

Average Debtors = ₹ 5,00,000

(iv) Calculation of Current Liabilities:

Net Working Capital Turnover ratio = 2.5

$$\frac{\text{Sales}}{\text{Current Assets} - \text{Current Liabilites}} = 2.5$$

$$\frac{30,00,000}{\text{Current Assets} - \text{Current Liabilites}} = 2.5$$

Current Assets – Current Liabilities = 12,00,000 ………….. (1)
Current Ratio = 2.5

$$\frac{\text{Current Assets}}{\text{Current Liabilites}} = 2.5$$

Current Assets = 2.5 Current Liabilities ……………………..(2)
From (1) & (2),
2.5 Current Liabilities – Current Liabilities = 12,00,000
1.5 Current Liabilities = 12,00,000
Current Liabilities = ₹ 8,00,000

(v) Calculation of Cash Balance:

Current Assets = 2.5 Current Liabilities

Current Assets = 2.5 (8,00,000)	= 20,00,000
(-) Debtors	(5,00,000)

(-) Stock	(4,00,000)
Cash Balance	**₹ 11,00,000**

Q.4 Prepare B/s | PY Dec 21

Following are the data in respect of ABC Industries for the year ended 31 st March, 2021:

Debt to Total assets ratio	:	0.40
Long-term debts to equity ratio	:	30%
Gross profit margin on sales	:	20%
Accounts receivables period	:	36 days
Quick ratio	:	0.9
Inventory holding period	:	55 days
Cost of goods sold	:	₹ 64,00,000

Liabilities	₹	Assets	₹
Equity Share Capital	20,00,000	Fixed assets	
Reserves & surplus		Inventories	
Long-term debts		Accounts receivable	
Accounts payable		Cash	
Total	50,00,000	Total	

Required:

Complete the Balance Sheet of ABC Industries as on 31st March, 2021. All calculations should be in nearest Rupee. Assume 360 days in a year.

Ans. **Working Notes:**

(1) Total liability = Total Assets = ₹ 50,00,000

Debt to Total Asset Ratio = 0.40

$$\frac{\text{Debt}}{\text{Total Assets}} = 0.40$$

$$\text{Or, } \frac{\text{Debt}}{50{,}00{,}000} = 0.40$$

So, **Debt** = **20,00,000**

(2) Total Liabilities = ₹ 50,00,000

Equity share Capital + Reserves + Debt = ₹ 50,00,000

So, Reserves =₹ 50,00,000 - ₹ 20,00,000 - ₹ 20,00,000

So, Reserves & Surplus = ₹ 10,00,000

(3) $$\frac{\text{Long term Debt}}{\text{Equity Shareholders' Fund}} = 30\%^*$$

$$\frac{\text{Long term Debt}}{(20{,}00{,}000 + 10{,}00{,}000)} = 30\%^*$$

Long Term Debt = ₹ 9,00,000

(4) So, Accounts Payable = ₹ 20,00,000 – ₹ 9,00,000

Accounts Payable = ₹ 11,00,000

(5) Gross Profit to sales = 20%

Cost of Goods Sold = 80% of Sales = ₹ 64,00,000

Sales = $\frac{100}{80}$ X 64,00,000 = 80,00,000

(6) Inventory Turnover = $\frac{360}{55}$

$\frac{\text{COGS}}{\text{Closing inventory}} = \frac{360}{55}$

$\frac{64,00,000}{\text{Closing inventory}} = \frac{360}{55}$

Closing inventory = 9,77,778

(7) Accounts Receivable period = 36 days

$\frac{\text{Accounts Receivable}}{\text{Credit sales}} \times 360 = 36$

Accounts Receivable = $\frac{36}{360}$ × credit sales

= $\frac{36}{360}$ × 80,00,000 (assumed all sales are on credit)

Accounts Receivable = ₹ 8,00,000

(8) Quick Ratio = 0.9

$\frac{\text{Quick Assets}}{\text{Current liabilities}} = 0.9$

$\frac{\text{Cash + Debtors}}{11,00,000} = 0.9$

Cash + 8,00,000 = ₹ 9,90,000

Cash = ₹ 1,90,000

(9) Fixed Assets = Total Assets- Current Assets = 50,00,000 – (9,77,778+8,00,000+1,90,000) = **30,32,222**

Balance Sheet of ABC Industries as on 31st March 2021

Liabilities	**(₹)**	**Assets**	**(₹)**
Share Capital	20,00,000	Fixed Assets	**30,32,222**
Reserved surplus	**10,00,000**	Current Assets:	
Long Term Debt	**9,00,000**	Inventory	**9,77,778**
Accounts Payable	**11,00,000**	Accounts Receivables	**8,00,000**
		Cash	**1,90,000**
Total	50,00,000	**Total**	**50,00,000**

(***Note**: Equity shareholders' fund represent equity in 'Long term debts to equity ratio'. The question can be solved assuming only share capital as 'equity')

Q.5 | Prepare B/s | PY July 21

Masco Limited has furnished the following ratios and information relating to the year ended 3 1st March 2021:

Sales Return on net worth	₹ 75,00,000 25%

Rate of income tax	50%
Share capital to reserves	6:4
Current ratio	2.5
Net profit to sales (After Income Tax)	6.50%
Inventory turnover (based on cost of goods sold)	12
Cost of goods sold	₹ 22,50,000
Interest on debentures	₹ 75,000
Receivables (includes debtors ₹ 1,25,000)	₹ 2,00,000
Payables	₹ 2,50,000
Bank Overdraft	₹ 1,50,000

You are required to:

(a) Calculate the operating expenses for the year ended 31st March, 2021.

(b) Prepare a balance sheet as on 31st March in the following format:

Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
Reserves and Surplus		Current Assets	
15% Debentures		Stock	
Payables		Receivables	
Bank Term Loan		Cash	

Ans. (a) **Calculation of Operating Expenses for the year ended 31st March, 2021**

Particulars		**(₹)**
Net Profit [@ 6.5% of Sales] Add: Income		4,87,500
Tax (@ 50%)		4,87,500
Profit Before Tax (PBT)		9,75,000
Add: Debenture Interest		75,000
Profit before interest and tax (PBIT)		10,50,000
Sales		75,00,000
Less: Cost of goods sold	22,50,000	
PBIT	10,50,000	33,00,000
Operating Expenses		42,00,000

(b) **Balance Sheet as on 31st March, 2021**

Liabilities	₹	**Assets**	₹
Share Capital	11,70,000	Fixed Assets	18,50,000
Reserve and Surplus	7,80,000	Current Assets	
15% Debentures	5,00,000	Stock	1,87,500
Payables	2,50,000	Receivables	2,00,000
Bank Overdraft(or Bank Term Loan)	1,50,000	Cash	6,12,500
	28,50,000		28,50,000

Working Notes:

(i) Calculation of Share Capital and Reserves

The return on net worth is 25%. Therefore, the profit after tax of ₹ 4,87,500 should be equivalent to 25% of the net worth.

Net worth $\frac{25}{100}$ = ₹ 4,87,500

Net worth = $\frac{4,87,500 \times 100}{25}$ = ₹ 19,50,000

The ratio of share capital to reserves is 6:4

Share Capital = 19,50,000 x 6/10 = ₹ 11,70,000

Reserves = 19,50,000 x 4/10 = ₹ 7,80,000

(ii) Calculation of Debentures

Interest on Debentures @ 15% (as given in the balance sheet format) = ₹ 75,000

Debentures = $\frac{75,000 \times 100}{15}$ = ₹ 5,00,000

(iii) Calculation of Current Assets

Current Ratio = 2.5

Payables = ₹ 2,50,000

Bank overdraft = ₹ 1,50,000

Total Current Liabilities = ₹ 2,50,000 + ₹ 1,50,000 = ₹ 4,00,000

Current Assets = 2.5 x Current Liabilities = 2.5 [illegible] 4,00,000 = ₹ 10,00,000

(iv) Calculation of Fixed Assets

Particulars	₹
Share capital	11,70,000
Reserves	7,80,000
Debentures	5,00,000
Payables	2,50,000
Bank Overdraft	1,50,000
Total Liabilities	28,50,000
Less: Current Assets	10,00,000
Fixed Assets	18,50,000

(v) Calculation of Composition of Current Assets

Inventory Turnover = 12

$\frac{\text{Cost of goods sold}}{\text{Closing stock}}$ = 12

Closing stock = $\frac{22,50,000}{12}$ = Closing stock = ₹ 1,87,500

Particulars	₹
Stock	1,87,500
Receivables	2,00,000
Cash (balancing figure)	6,12,500
Total Current Assets	10,00,000

Q.6 Prepare B/s | PY Jan 21

From the following information, complete the Balance Sheet given below:

(i)	Equity Share Capital	:	₹ 2,00,000
(ii)	Total debt to owner's equity	:	0.75
(iii)	Total Assets turnover	:	2 times
(iv)	Inventory turnover	:	8 times
(v)	Fixed Assets to owner's equity	:	0.60
(vi)	Current debt to total debt	:	0.40

Balance Sheet of XYZ Co. as on March 31, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Shares Capital	2,00,000	Fixed Assets	?
Long term Debt	?	Current Assets:	
Current Debt	?	Inventory	?
		Cash	?

Ans. **Balance Sheet of XYZ Co. as on March 31, 2020**

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	2,00,000	Fixed Assets	1,20,000
Long-term Debt	90,000	**Current Assets:**	
Current Debt	60,000	Inventory	87,500
		Cash (balancing figure)	1,42,500
	3,50,000		**3,50,000**

Working Notes

1. Total Debt = 0.75 x Equity Share Capital = 0.75 x ₹ 2,00,000 = ₹ 1,50,000
   Further, Current Debt to Total Debt = 0.40.
   So, Current Debt = 0.40 x ₹ 1,50,000 = ₹ 60,000
   Long term Debt = ₹ 1,50,000 - ₹ 60,000 = ₹ 90,000
2. Fixed Assets = 0.60 x Equity Share Capital = 0.60 x ₹ 2,00,000 = ₹ 1,20,000
3. Total Assets to Turnover = 2 times; Inventory Turnover = 8 times
   Hence, Inventory /Total Assets = 2/8 =1/4
   Further, Total Assets = ₹ 2,00,000 + ₹ 1,50,000 = ₹ 3,50,000
   Therefore, Inventory = ₹ 3,50,000/4 = ₹ 87,500
   Cash in Hand = Total Assets – Fixed Assets – Inventory
   = ₹ 3,50,000 - ₹ 1,20,000 - ₹ 87,500 = ₹ 1,42,500

Q.7 Return on Asset | PY Nov 20

Following information relates to RM Co. Ltd.

	(₹)
Total Assets employed	10,00,000
Direct Cost	5,50,000
Other Operating Cost	90,000

Goods are sold to the customers at 150% of direct costs.
50% of the assets being financed by borrowed capital at an interest cost of 8% per annum. Tax rate is 30%.
You are required to calculate :

(i) Net profit margin
(ii) Return on Assets
(iii) Asset turnover
(iv) Return on owners' equity

Ans. **Computation of net profit:**

Particulars	(₹)
Sales (150% of ₹ 5,50,000)	8,25,000
Direct Costs	5,50,000
Gross profit	2,75,000
Other Operating Costs	90,000
Operating profit (EBIT)	1,85,000

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