RATIO ANALYSIS (LECTURE-6)

SEMESTER-6 JUHI JAISWAL

MASTER PROBLEMS

Problem -1

Following are incomplete Trading & Profit and Loss A/c. and Balance Sheet.

Trading A/c.			
Particular	Rs.	Particular	Rs.
To Op. stock	3,50,000	By Sales	(?)
To Purchase	(?)	By Closing Stock	(?)
To Purchase Return	87,000		
To Gross Profit	7,18,421		
	14,96,710		14,96,710

Profit & Loss A/c.

Particular	Rs.	Particular	Rs.
To Office Exp.	3,70,000	By Gross Profit	7,18,421
To Int. on Deb.	30,000	By Commission	(?)
To Tax. Provision	18,421		
To Net Profit	3,50,000		
	(?)		(?)

Balance Sheet

Particular	Rs.	Particular	Rs.
Paid Up Capital	5,00,000	Plant & machinery	7,00,000
General Reserve	(?)	Stock	(?)
P & L a/c.	(?)	Debtors	(?)
10% Debenture	(?)	Bank	62,500
Current Liabilities	6,00,000	Other Fixed Assets	(?)
	(?)		(?)

Find out missing items with the help of other details are as under:

- 1. Current Ratio was 2:1.
- **2.** Closing Stock is 25% of Sales.
- 3. Proposed Dividend was 40% of paid up capital.
- 4. Gross profit Ratio was 60%.
- 5. Amount transfer to General Reserve is same as proposed Dividend.
- 6. Balance of P & L Account is calculated 10% of proposed dividend.
- 7. Commission income is 1/7 of Net profit.
- 8. Balance of General reserve is twice the current year transfer amount.

Solution

Trading A/c.			
Particular	Rs.	Particular	Rs.
To Op. stock	3,50,000	By Sales (?)	11,97,368
To Purchase (?)	3,41,289	By Closing Stock (?)	2,99,342
To Purchase Return	87,000		
To Gross Profit	7,18,421		
	14,96,710		14,96,710

Profit & Loss A/c.

Particular	Rs.	Particular	Rs.
To Office Exp.	3,70,000	By Gross Profit	7,18,421
To Int. on Deb.	30,000	By Commission (?)	50,000
To Tax. Provision	18,421		
To Net Profit	3,50,000		
	7,68,421		7,68,421

Balance Sheet

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Paid Up Capital	5,00,000	Plant & machinery	7,00,000
General Reserve (?)	6,00,000	Stock (?)	2,99,342
P & L a/c. (?)	20,000	Debtors (?)	8,38,158
10% Debenture (?)	3,00,000	Bank (?)	62,500
Current Liabilities	6,00,000	Other Fixed Assets	1,20,000
	20,20,000		20,20,000

1.	Gross Profit Margin =	<u>Gross profit</u> Sales	х	100
		60 = <u>7,18,421</u> Sales	х	100
		Sales = <u>7,18,421</u> 60	х	100
		Sales = 11,97,368		

2.	Closing Stock	=	Sales x 25%
			11,97,368 x 25%
			CS = 2,99,342

3.	Proposed Dividend =	Paid up Capital x 40%
		= 5,00,000 x 40%
		PD = 2,00,000

4.	General Reserve =	GR find out as per Proposed Dividend
		Proposed Dividend is 2,00,000
		So that Proposed Dividend = General Reserve
		GR = 2,00,000

		Commission - 50 000
		Commission = $3.50,000 \times 1/7$
5.	Commission =	It is 1/7 part of Net Profit

		P & L A/c. = 20,000
		P & L A/c. = 2,00,000 x 10%
6.	Profit & Loss Account =	It is 10% of Proposed Dividend

7.	Debenture =	Rate of Interest is 10%	
		Interest amount is Rs. 30,000	
		So that, Debenture value is	
		= 30,000 x 100/10	
		= 3,00,000	

8. Current Ratio =	<u>Current Assets</u> Current liabilities	
	2 = <u>Stock + debtors + Bank Balance</u> Current Liability	
	2 = 2,99,342 + debtors + 62,500	
	6,00,000	
	12,00,000 = Debtors + 3,61,842	
	Debtors = 12,00,000 - 3,61,842	
	Debtors = 8,38,158	

9. Balance of General		It is twice of current year provision for Coneral Pecaryo		
Reserve =		It is twice of current year provision for General Reserve		
		Current year provision is Rs. 2,00,000		
		So that, Balance of G. R. = 2,00,000 x 2		
		Balance of GR = 4,00,000		
		Now, General Reserve = 4,00,000 + 2,00,000		
		GR = 6,00,000		

Problem -2

From the following information, prepare the Balance Sheet of ABB Ltd. Showing the details of working: Paid up capital Rs. 50,000 Plant and Machinery Rs. 1,25,000 Total Sales (p.a.) Rs. 5,00,000 **Gross Profit** 25% 80% of net sales **Annual Credit Sales** Current Ratio 2 Inventory Turnover 4 2 Fixed Assets Turnover 20% of sales Sales Returns Average collection period 73 days Bank Credit to trade credit 2 Cash to Inventory 1:15 Total debt to current Liabilities 3

Solution

1. Net Sales =	Total Sales - Sales Return
	= 5,00,000 - 1,00,000
	= Rs. 4,00,000
2. Credit Sales =	80% of Net Sales
	= 4,00,000 x 80%
	= Rs. 3,20,000
3. Gross Profit =	25% of Net sales
	= 4,00,000 x 25%
	= Rs. 1,00,000
4. Cost of Goods Sold =	Net Sales - Gross Profit
	= 4,00,000 - 1,00,000
	= Rs. 3,00,000
-	Cost of Goods Sold
5. Inventory =	Inventory Turnover
	= <u>3,00,000</u>
	4
	= Rs. 75,000
	<u>365</u>
6. Receivable Turnover =	73
	= 5

Receivables =	Credit Sales		
	Receivables Turnover		
	= <u>3,20,000</u>		
	5		
	= Rs. 64,000		
7. Cash =	1/5 of Inventory		
	= 1/5 x 75,000		
	= Rs.15,000		
8. Total Current Assets =	Inventory + Receivables + Cash		
	= 75,000 + 64,000 + 5,000		
	= Rs. 1,44,000		
	Current Assets		
9. Total Current Liabilities =	2		
	= <u>1,44,000</u>		
	2		
	= Rs. 72,000		
10. Bank Credit =	2/3 x Current Liabilities		
	= 2/3 x 72,000		
	= Rs. 48,000		
11. Trade Credit =	1/2 of Bank Credit OR 1/3 of Current Liabilities		
	Rs. 24,000		
12. Total Debt =	Current Liabilities x 3		
	72,000 x 3		
	= Rs. 2,16,000		
13. Long term debt =	Total Debt - Current Liabilities		
	= 2,16,000 - 72,000		
	= Rs. 1,44,000		
14. Fixed Assets =	1/2 of Net Sales =		
	1/2 x 4,00,000		
	= Rs. 2,00,000		
15. Other fixed Assets =	Fixed Assets - Plant & Machinery		
	= 2,00,000 - 1,25,000		
	= Rs. 75,000		
16. Total Assets =	Fixed Assets + Current Assets		

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Paid Up Capital	50,000	Plant & machinery	1,25,000
Reserves & Surplus	78,000	Other Fixed Assets	75,000
Long term Debt	1,44,000	Inventory	75,000
Bank credit	48,000	Receivables	64,000
Trade credit	24,000	Cash	5,000
	3,44,000		3,44,000