



UNIT-III Financial Statements of a Company

Financial Statements: Financial statements are the end products of accounting process, which reveal the financial results of a specified period and financial position as on a particular date. These statements include income statement and balance sheet. The basic objective of these statements is to provide information required for decision making by the management as well as other outsiders who are interested in the affairs of the undertaking. Section 129 of as per Schedule III to the Companies Act, 2013 every year.

- 1. Balance Sheet:** The balance sheet shows all the assets owned by the concerned, all the obligations or liabilities payable to outsiders or creditors and claims of the owners on a particular date.
- 2. Income statement or Statement of Profit and Loss :** The Income Statement or Profit and Loss is prepared for the period (12 months) to determine the operational results of an undertaking. It is a statement of revenue earned and the expenses incurred for earning the revenue.
- 3. Notes to Accounts.** (Balance Sheet & Statement of Profit and Loss) supported by the notes in which details of items is given
- 4. Cash Flow Statement.** Cash flow statement provides information changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities for a particular period of time i.e financial year as per AS-3.

<i>Internal Users of Financial Statements</i>	<i>External Users of Financial Statements</i>
1. Shareholders 2. Management 3. Employees	1. Banks & financial Institutions 2. Investors and Potential Investor 3. Creditors 4. Government and its Authorities 5. Securities Exchange board of India SEBI
Objectives of financial statement analysis. Financial statements are the basic sources of formation to the shareholders and other external parties for understanding the profitability and financial position of any concern. 1. To provide information about economic resources and obligations of a business. 2. To provide information about the earning capacity of the business. 3. To provide information about cash flows. 4. To judge effectiveness of management. 5. Information about activities of business affecting the society. 6. Disclosing accounting policies	Limitations of financial statement analysis. 1. Do not reflect current situation-Historical cost. 2. Assets may not realize the stated values 3. Bias- the concepts and conventions depend upon personal judgments from time to time. 4. Aggregate information not detailed information. 5. Vital Information missing-to loss of markets . 6. No Qualitative information-monetary information but not qualitative information 7. They are only interim report it does not give an idea about the earning capacity over time and the change on a future date is not depicted.



ACCOUNTANCY

The following points explain the Nature of Financial statements: 1. Recorded facts 2. Accounting Conventions& concepts. 3. Postulates-prepared on certain basic assumptions (pre-requisites) 4. Personal Judgements	OPERATING CYCLE Operating cycle is the time between the acquisition of an asset for processing, and its realization into Cash & Cash Equivalents. It cannot be identified, it is assumed to be of 12 month. A company can have two operating cycle for two business.
--	--

- **Employee Benefit Expenses-** Expenses payment made to and for the benefits of the employees. Example- Wages, Salaries, Bonus, Leave encashment, Staff welfare expenses, ESOP expenses **are shown in the notes to Accounts on Employee Benefit Expenses** and total of these is shown on the face of the statement of Profit and Loss against **Employee Benefit Expenses**.
- **Finance Cost-**Means cost incurred by the company on the borrowings i.e loan processing fee, discount if issues of debenture written off, premium payable of redemption of debenture, interest paid on bank overdraft.
- **Bank charges** are not a finance cost they come under other expenses as they are expenses on service availed from bank.

PART I — BALANCE SHEET Schedule III (See section 129)

Name of the Company.....

Balance Sheet as at(Rupees in.....)

Particular	Note No.	Figures as at the end of the Current Reporting Period	Figures as at the end of the Previous Reporting Period
1	2	3	4
I. EQUITY AND LIABILITIES (1) Shareholders' funds (a) Share capital (b) Reserves and surplus (c) Money received against share warrants (2) Share application money pending allotment (3) Non-current liabilities (a) Long-term borrowings (b) Deferred tax liabilities (Net) (c) Other Long term liabilities (d) Long-term provisions			



ACCOUNTANCY

4) Current liabilities (a) Short-term borrowings (b) Trade payables (c) Other current liabilities (d) Short-term provisions			
TOTAL			
II. ASSETS (1) Non-current assets (a) Fixed assets (i) Tangible assets (ii) Intangible assets (iii) Capital work-in-progress (iv) Intangible assets under development (b) Non-current investments (c) Deferred tax assets (net) (d) Long-term loans and advances (e) Other non-current assets (2) Current assets (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short-term loans and advances (f) Other current assets			
TOTAL			

Give the Main Heading and Sub-Heading of Equity and Liabilities of the Balance sheet of a company as per Schedule III to the Companies Act, 2013

S. No.		Heading	Sub-Heading	S. No.		Heading	Sub-Heading
1	Unclaimed Dividend			10	Bank/Cash Balance		
2	Trade Payable			11	Work-in-progress		
3	Outstanding Salaries			12	Interest on Call in Advance		
4	Trade marks			13	Security Premium		
5	9% Debenture			14	Computer Software		
6	Provision for doubtful debt			15	General Reserve		
7	Patents and Trade Marks			16	Share Forfeiture Account		
8	Prepaid Expenses			17	Proposed Dividend		
9	Goodwill			18	Provision for Tax		



ACCOUNTANCY

19	Preliminary Expenses			26	Net loss shown by statement of P&L		
20	Sinking Fund			27	Govt. Securities		
21	Provision for Provident Fund			28	Capital Redemption Reserve		
22	Investment in Govt. Securities			29	Mining Right		
23	Advances Recoverable in Cash			30	Bonds		
24	Short-term deposit payable demand			31	Stores and Spare Parts		
25	Loose Tools			32	Goodwill		

Q.1. List any three items that can be shown as contingent Liabilities in a company's Balance sheet.

Ans: (i) Claims against the Company not acknowledged as debts.
(ii) Uncalled Liability on partly paid shares.
(iii) Arrears of Dividend on Cumulative preference shares.

Q.2. How is a Company's balance sheet different from that of a Partnership firm? Give two point only?

Ans. (i) For company's Balance Sheet there is a standard forms prescribed under the companies Act.2013 .Whereas, there is no standard form prescribed under the Indian partnership Act, 1932 for a partnership Firms balance sheet.
(ii) In case of a company's Balance sheet previous year's figures are required to be given whereas it is not so in the case of a partnership firms balance sheet.

Q.3. How does analysis of financial statements suffer from the limitation of window dressing?

Ans. Analysis of financial statements is affected from the limitation of window dressing as companies hide some vital information or show items at incorrect value to portray better profitability and financial Position of the business, for example the company may overvalue closing stock to show higher profits.

Q.4. Operating Cycle and The period when payment is made given below, how will you classify the liabilities.

Particular	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
Operating Cycle	8	10	10	11	18	18	15	20
Expected Period when payment is made in months	12	9	12	13	16	20	14	18
Answer: (Current or Non-Current)	?	?	?	?	?	?	?	?

Q.5. Prepare Statement of Profit & Loss from the following information of Z Ltd 31st March 2016.

Q.No. 1	Rupees	Q.No. 2	Rupees
Revenue From	25,00,000	Revenue From Operations	30,00,000
Operations Purchase of Stock	15,00,000	10% debenture Issues on	4,00,000
Interest Received	30,000	1 st April 2015	
Wages & Salaries	5,00,000	Deprecation Machinery	60,000
Bonus Paid	60,000	Wages	3,60,000



ACCOUNTANCY

Gratuity Paid	40,000	Salaries	1,20,000
Opening Inventories	1,50,000	Scrap Sale	20,000
Closing Inventories	2,50,000	Material Consumed Cost	16,00,000
Answer: Profit Before Tax	5,30,000	Answer: Profit Before Tax	8,40,000

Q.6. From the following balances prepare Balance Sheet of the company as per schedule III, Company act 2013.

Share capital Rs 10,00,000(Equity Share of Rs 10 each fully paid up), 10% Debenture Rs. 2,00,000,Discount on issues of 10% Debenture Rs.5,000, Proposed Dividend Rs. 1,00,000 Land & Building Rs. 3,00,000, Plant & Machinery Rs. 7,00,000 , Trade Bills Receivable Rs 1,50,000, Inventories Rs1,00,000, Goodwill 2,00,000, Investment in Share of X.Ltd Rs 2,00,000. Trade Debtor Rs 1,00,000, Creditors Rs.1,00,000, unsecured loan from Bank Rs.1,00,000, Provision for Tax Rs. 55,000, General Reserve Rs.2,00,000.

Financial Statements Analysis-2

Financial Statements Analysis is evaluation, analyzing and interpretation of the financial information contained in the financial statements to understand and take decisions regarding the operations and financial position of the firm.

Tools of Financial Statements Analysis. 1. Comparative Statement 2. Common-sizeStatement 3. Ratio Analysis 4.Cash Flow Statement.	Objectives of Financial Statements Analysis is Assessing of 1.Earning Capacity 2.Managerial Efficiency 3.Solvency 4. Comparison 5. Forecasting
---	---

➤ Horizontal Analysis is a time series analysis whereas Vertical Analysis is analyze of one year only.

- Comparative Statements:** The statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. **Horizontal analyses**'.
- Common Size Statements:** The statements which indicate the relationship of different items of a financial statement with some common item by expressing each item as a percentage of the common item. **'Vertical analysis**'.

Q1. Prepare Comparative and Common Size **INCOME STATEMENT** from the following information for the year's ended March 31st, 2015 and 2016.

Particulars	2015 (Rs.)	2015 (Rs.)
1. Revenue From Operations	12,00,000	15,00,000
2. Other Income	4,00,000	5,00,000
3. Cost of Material	60% of total Revenue	60% of total Revenue
4. Indirect Expenses	10% of profit	10% of profit
5. Income Tax rate	50%	60%



Solution: - Comparative Income statement

S. No.	Particular	2015 Amount P.Y.	2016 Amount C.Y.	Absolute Change +/-	Percentage % of Change
i.	Revenue From Operations	1200000	1500000	300000	25%
ii.	Add other Income	400000	500000	100000	25%
	Total Income (I+II)	1600000	2000000	400000	25%
iii.	Less Expenses Cost of Material Consumed	960000	1200000	240000	25%
iv.	Other Expenses	64000	80000	16000	25%
	Total Expenses (IV+V)	1024000	1280000	256000	25%
v.	Profit before tax	576000	720000	144000	25%
vi.	less Tax	288000	432000	144000	50%
vii.	Profit After tax	288000	288000	0	0%

Solution: - Common Size Income statement

S. No.	Particular	2015 Amount P.Y.	2016 Amount C.Y.	Percentage of Net sales in P.Y.	Percentage of Net sales in C.Y.
I.	Revenue From Operations	1200000	1500000	100%	100%
II.	Add other Income	400000	500000	33.33%	33.33%
III.	Total Income (I+II)	1600000	2000000	133.33%	133.33%
IV.	Less Expenses Cost of Material Consumed	960000	1200000	80%	80%
V.	Other Expenses	64000	80000	5.33%	5.33%
VI.	Total Expenses (IV+V)	1024000	1280000	85.33%	85.33%
VII.	Profit before tax	576000	720000	48%	48%
VIII.	less Tax	288000	432000	24%	28.87%
IX.	Profit After tax	288000	288000	24%	19.2%

From the following information prepares a Comparative Common Size income Statements.

Q2. Particulars	2015	2016
Revenue from Operations	15,00,000	18,00,000
Cost of Operations	11,00,000	14,00,000
Indirect Expenses	20% of Revenue Gross	25% of Revenue Gross
Income Tax	50%	50% (CBSE)

Answer -Net Profit After Tax 2015 Rs.1,60,000 2016 Rs. 1,50,000 Change (-10,000) & (-6.25%)



ACCOUNTANCY

Q3. Particulars	31.3.2015	31.3.2016
Revenues from Operations	30,00,000	40,00,000
Cost of Goods Operations	60% of Sales	55% of Sales
Paid wages	25,000	30,000
Operating Expenses	20% of Revenue Gross	25% of Revenue Gross
Income Tax	40%	40% (CBSE)

Answer-Net Profit after tax 2015 Rs 5,76,000, 2016 Rs 8,10,000 change 2,34,000 & 40.63%

- Q.4. Y Ltd. Decided to set up a charitable Hospital to provide free medical facilities to the weaker section of the society. Following information is given. Prepare a Common Size Balance Sheet and **identify the value involved.**

Particular	2015	2016
Share capital	340000	300000
Trade payables	25000	40000
Trade receivable	29000	190000
Reserve and Surplus	80000	80000
Short-term borrowings	120000	100000
Long-term borrowings	75000	80000
Current investments	18000	10000
Fixed assets	240000	290000
Inventories	82000	101000
Cash and cash equivalents	10000	9000

Solution: - Common Size Balance Sheet

BALANCE SHEET

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016	Percentage of BS Total	Percentage of BS Total
1	2	3	4	5	6
I. EQUITY AND LIABILITIES					
(1) Shareholders' funds					
(a) Share capital		340000	300000	53.12%	50%
(b) Reserve and Surplus		80000	80000	12.5%	13.33%
(3) Non-current liabilities					
(a) Long-term borrowings		75000	80000	11.71%	13.33%
4) Current liabilities					
(a) Short-term borrowing		120000	100000	18.75%	16.67%
(b) Trade payables		25000	40000	3.90%	6.67%
TOTAL		640000	600000	100%	100%



ACCOUNTANCY

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016	Percentage of BS Total	Percentage of BS Total
1	2	3	4	5	6
II. ASSETS					
(1) Non-current assets					
(a) Fixed assets		240000	290000	37.50%	48.33%
(2) Current assets					
(a) Current investments		18000	10000	2.81%	1.66%
(b) Inventories		82000	101000	12.81%	16.83%
(c) Trade receivables		290000	190000	45.31%	31.667%
(d) Cash and cash equivalents		10000	9000	1.56%	1.5%
TOTAL		640000	600000	100%	100%

Q5. Balance sheet of Ruble Ltd given you are required to make Comparative BALANCE SHEET

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016
1	2	3 Rs.	4 Rs.
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital		5,600	6,600
(b) Reserve and Surplus		2,000	2,800
(3) Non-current liabilities			
(a) Long-term borrowings		1,200	1,020
4) Current liabilities			
(a) Short-term borrowings		1,200	1,720
(b) Trade payables		500	860
TOTAL		10,500	13,000
II. ASSETS			
(1) Non-current assets			
(a) Fixed assets		4,260	7,260
(2) Current assets			
(a) Current investments		2,560	2,800
(b) Inventories		3,000	2,200
(c) Cash and cash equivalent		680	740
TOTAL		10,500	13,000



ACCOUNTANCY

Solution-Comparative BALANCE SHEET

Particular	Note No.	Figures as at end of 2015	Figures as at end of 2016	Absolute Change+/-	Percentage of change %
1	2	3 Rs.	4 Rs.	4 Rs.	4 Rs.
I. EQUITY AND LIABILITIES					
(1) Shareholders' funds		A	B	C=B-A	D=C/A x100
(a) Share capital		5,600	6,600	1,000	17.85%
(b) Reserve and Surplus		2,000	2,800	800	40%
(3) Non-current liabilities					
(a) Long-term borrowings		1,200	1,020	(-180)	(-15%)
4) Current liabilities					
(a) Short-term borrowings		1,200	1,720	520	43.33%
(b) Trade payables		500	860	360	72%
TOTAL		10,500	13,000	2,500	23.81%
II. ASSETS					
(1) Non-current assets					
(a) Fixed assets		4,260	7,260	3,000	70.42%
(2) Current assets					
(a) Current investments		2,560	2,800	240	9.38%
(b) Inventories		3,000	2,200	(-800)	(-26.67%)
(c) Cash and cash equivalent		680	740	60	8.82%
TOTAL		10,500	13,000	2,500	23.81%

Values of Question Number 4 are SYMPATHY HEALTH CONCERN AND CHARITY.

Do it yourself

Q6. From the Comparative Income statement find missing figures. (CBSE)

S. No.	Particular	2015 Amount P.Y.	2016 Amount C.Y.	Absolute Change +/-	Percentage of Net sales in C.Y.
i.	Revenue From Operations	1500000	?	500000	?
ii.	Add other Income	400000	?	?	150%
iii.	Total Income (I+II)	?	300000	?	57.89%
iv.	Less Expenses	1500000	2100000	?	
v.	Profit before tax (III-IV)	?	?	?	125%
vi.	less = Tax 50%C	200000	?	?	125%
vii.	Profit After tax (V-VI)	?	450000	250000	?



*Test your Understanding – I Choose the right answer : - The financial statements of a business enterprise include: - Balance sheet - Statement of Profit and loss - Cash flow statement - All the above - The most commonly used tools for financial analysis are: - Horizontal analysis - Vertical analysis - Ratio analysis - All the above - An Annual Report is issued by a company to its: - Directors - Auditors - Shareholders - Management - Balance Sheet provides information about financial position of the enterprise: - At a point in time - Over a period of time - For a period of time - None of the above - Comparative statement are also known as: - Dynamic analysis - Horizontal analysis - Vertical analysis - External analysis	*Test your Understanding – II State whether each of the following is True or False : - The financial statements of a business enterprise include funds flow statement. - Comparative statements are the form of horizontal analysis. - Common size statements and financial ratios are the two tools employed in vertical analysis. - Ratio analysis establishes relationship between two financial statements. - Ratio analysis is a tool for analyzing the financial statements of any enterprise. - Financial analysis is used only by the creditors. - Statement of Profit and loss shows the operating performance of an enterprise for a period of time. - Financial analysis helps an analyst to arrive at a decision. - Cash Flow Statement is a tool of financial statement analysis. - In a Common size statement each item is expressed as a percentage of some common base *Test your Understanding -III Fill in the blanks with appropriate word(s), - Analysis simply means———data. - Interpretation means———data. - Comparative analysis is also known as ——analysis. - Common size analysis is also known as ——analysis. - The analysis of actual movement of money inflow and outflow in an organization is called———analysis.
--	--

***FROM NCERT BOOK Test your Understanding – III**

1. Simplification 2. Explaining 3. the impact of horizontal 4. vertical 5. cash flow.

Test your Understanding – I 1 (d) 2 (d) 3 (c) 4 (a) 5 (b)

Test your Understanding – II- (a) True (b) True (c) True (d) True (e) True (f) False (g) True (h) True (i) True (j) True



Accounting Ratios-3

Classification or types of ratios

Ratios are classified into 4 categories

1. Liquidity Ratios also called as short term solvency ratios.
2. Solvency Ratios
3. Activity ratios also known as Turnover ratios or Performance ratios
4. Profitability ratios

1. Liquidity Ratios 1. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ Current Assets = Current Investments + Inventories (Excluding Spare Parts and Loose Tools) + Trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets. Current Liabilities = Short Term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions. (Standard Current Ratio:- 2:1) 2. Liquid Ratio = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$ Liquid Assets = Current Assets - Inventories - Prepaid expenses Current Liabilities = Short - Term Borrowings + Trade Payable + Other Current Liabilities + Short - term Provision 2. Solvency Ratios 1. Debt Equity Ratio = $\frac{\text{Debt}}{\text{Equity}}$ Debt = Long Term Borrowings + Long Term Provisions Equity/Shareholder's Funds = Share Capital + Reserves and Surplus OR Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Trade Investments + Long-Term Loans & Advances) + Working Capital - Non-Current Liabilities (Long-Term Borrowings + Long-Term Provisions) (Standard Debt Equity Ratio:- 2:1) Working Capital = Current Assets - Current Liabilities 2. Total Assets to Debt Ratio = $\frac{\text{Total Assets}}{\text{Debt}}$ Total Assets = Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current	Investments + Long-Term Loans & Advances) + Current Assets (Current Investments + Inventories Trade Receivables + Cash & Cash Equivalent + Short-Term Loans & Advances + Other Current Assets). Debt = Long Term Borrowings + Long Term Provisions 3. Proprietary Ratio = $\frac{\text{Proprietors Funds}}{\text{Total Assets}}$ Proprietors Funds = Share Capital + Reserves and Surplus OR Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Trade Investments + Long-Term Loans & Advances) + Working Capital - Non-Current Liabilities (Long-Term Borrowings + Long-Term Provisions) Total Assets = Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current Investments + Long -Term Loans & Advances) + Current Assets (Current Investments + Inventories including Spare Parts & Loose Tools + Trade Receivables + Cash & Cash Equivalent + Short-Term Loans & Advances + Other Current Assets). 4.. Interest Coverage Ratio = $\frac{\text{Net Profit before interest and tax}}{\text{Interest on Long term debt}}$ Significance/Objectives/Importance 1. This ratio indicates that a firm can pay interest due on long term debts or not. 2. Higher ratio indicates that firm can pay interest on long term debts without any hurdle. 3. Low ratio indicates that firm may face problem in paying the interest due on long term debts.
---	--



Formula of Capital Employed

✓ Liabilities side approach

Shareholder's Fund (Share Capital + Reserves & surpluses) + Non-Current liabilities (Long term-borrowing + long term Provisions)

✓ Assets Side Approach

Non-Current Assets (Tangible Assets + Intangible Assets + Non-Current investment + Long-term Loans & Advances) + Working Capital

- It is Assumed that all Non-Current Investments are Trade Investments only.
- Interest on Non-Trade Investments should be deducted from Profit before Interest, Tax and Dividend. Therefore it cannot be a part of Non-Current Investments.

3. Activity Turnover Ratio

1. Inventory Turnover Ratio =

$$\frac{\text{Cost of Revenue from operations}}{\text{Average Inventory}}$$

Cost of Revenue from Operation =
Revenue from Operation – Gross Profit OR

Opening Inventory + Net Purchases +
Direct Expenses (Assume to be given) –
Closing Inventories OR

Cost of materials consumed + purchase of
stock-in-trade + change in Inventory
(Finished Goods; Work in Progress &
Stock-in-trade) + Direct Expenses
(Assume given)

Average Inventory =

Opening Inventory + Closing Inventory 2

2. Trade Receivable Turnover Ratio =

Net credit revenue from operation

Average Trade Receivable

Net Credit Sales = Total Sales - Cash Sales)

OR

Credit Revenue from Operation =
Revenue from Operation – Cash Revenue
from Operation

$$\frac{\text{Average Trade Receivables} = \text{Opening} + \text{Trade Receivable} + \text{Closing trade Receivable}}{2}$$

4. Profitability Ratios

1. Gross Profit Ratio =

$$\frac{\text{Gross profit}}{\text{Net Revenue from Operations}} \times 100$$

Gross Profit = Revenue from Operation – Cost
of Revenue from Operations

Cost of Revenue from Operation = Opening
Inventory (excluding Spare Parts and Loose
Tools) + Net Purchases + Direct Expenses –

Closing Inventory (excluding Spare Parts and
Loose Tools) OR

Revenue from Operation – Gross Profit

2. Operating Ratio =

$$\frac{\text{Cost of Revenue from operation} + \text{Operating Expenses} \times 100}{\text{Net Revenue from operations}}$$

Cost of Revenue from Operation = Opening
Inventory (excluding Spare Parts and Loose
Tools) + Net Purchases + Direct
Expenses – Closing Inventory (excluding
Spare Parts and Loose Tools) OR

Revenue from Operation – Gross Profit

Operating Expenses = Office, Administrative,
Selling and Distribution Expenses, Employees
Benefit expenses, Depreciation & Amortisation

3. Operating Profit Ratio =

$$\frac{\text{Operating Profit}}{\text{Revenue from operations}} \times 100$$

Operating Profit = Net Profit (After Tax) +
Non-Operating Expenses/Losses – Non
Operating Incomes OR

Gross Profit + Operating Income – Operating



Trade Receivable = Debtors + Bills Receivables 3. Trade payable Turnover Ratio = $\frac{\text{Net Credit Purchase}}{\text{Average Trade Payable}}$ Net Credit Purchase = Total Purchases – Cash Purchases Average Trade Payables = $\frac{\text{Opening Trade Payables} + \text{Closing trade Payables}}{2}$ Trade Payables = Creditors + Bills Payable 4. Working Capital Turnover Ratio = Net Revenue from Operations Working Capital *Working Capital = Current Assets – Current Liabilities Current Asset = Current Investments + Inventories (Excluding Spare Parts and Loose Tools) + trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets Current Liabilities = Short-Term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions	Expenses Non-Operating Expenses = Interest on Long Term Borrowing + Loss on sale of Fixed or Non-Current Assets Non-Operating Income = Interest received on investments + Profit of sale on Fixed Assets or Non-Current Assets 4. Net Profit Ratio = $\frac{\text{Net Profit} \times 100}{\text{Net Revenue from operations}}$ Net Profit before Interest & Tax = Gross Profit + Other Incomes – Indirect Expenses 5. Return on Investment (ROI) or Yield on Capital = NET PROFIT before interest, tax & dividend $\times 100$ Capital Employed Net Profit before Interest, Tax and Dividend = Gross Profit + other Income – Indirect Expenses
---	---

- ✓ A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage, and a number of times.

Q1. Shine Limited has a current ratio 4.5:1 and quick ratio 3:1; if the stock is Rs. 36,000, calculate current liabilities and current assets.

Ans: Current Assets Rs. 1,08,000, current liabilities Rs. 24,000)

Q1.A Cost of Goods Sold is Rs. 1,50,000. Operating expenses are Rs. 60,000. Sales is Rs. 2,60,000 and Sales Return is Rs. 10,000. Calculate Operating Ratio. (Ans: Operating Ratio 84%)

Q2. 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

(Ans: Debt Equity Ratio 2:1.)



- Q3. Following is the Balance Sheet KDS Ltd. as on March 31, 2016, Calculate Current Ratio and Liquid Ratio.

Liabilities Amount		Assets Amount	
Equity Share Capital	24,000	Buildings	45,000
8% Debentures	9,000	Stock	12,000
Profit and Loss	6,000	Debtors	9,000
Bank Overdraft	6,000	Cash in Hand	2,280
Creditor	23,400	Prepaid Expenses	720
Provision for Taxation	600		
	69,000		69,000

(Ans: Current Ratio 8:1, Liquid Ratio .37:1)

- Q4. Calculate following ratios from the following information:

(i) Current ratio (ii) Acid test ratio (iii) Operating Ratio (iv) Gross Profit Ratio

Current Assets Rs. 35,000
 Current Liabilities Rs. 17,500
 Stock Rs. 15,000
 Operating Expenses Rs. 20,000
 Revenue from operation Rs. 60,000
 Cost of Revenue from operation Rs. 30,000

(Ans: Current Ratio 2:1; Liquid Ratio 1.14:1; Operating Ratio 83.3%; Gross Profit Ratio 50%)

- Q5. Compute Gross Profit Ratio, Working Capital Turnover Ratio, Debt Equity Ratio and Proprietary Ratio from the following:

Paid-up Capital Rs. 5,00,000
 Current Assets Rs. 4,00,000
 Revenue from operation Rs. 10,00,000
 13% Debentures Rs. 2,00,000
 Current Liability Rs. 2,80,000
 Cost of Goods Sold Rs. 6,00,000

(Ans: Gross Profit Ratio 40%; Working Capital Ratio 8.33 times; Debt Equity Ratio 2:5; Proprietary Ratio 25:49)

- Q6. From the following information calculate Gross Profit Ratio, Stock Turnover Ratio and Debtors Turnover Ratio.

Revenue from operation Rs. 3,00,000
 Cost of Goods Sold Rs. 2,40,000
 Closing Stock Rs. 62,000
 Gross Profit Rs. 60,000
 Opening Stock Rs. 58,000
 Debtors Rs. 32,000

(Ans: Gross Profit Ratio 20%; Stock Turnover Ratio 4 times; Debtors Turnover Ratio 9.4 times)



Q7. From the following information calculate

- (i) Debt-Equity Ratio
- (ii) Interest Coverage Ratio
- (iii) Proprietary Ratio.

Equity Share Capital Rs. 2,00,000, General Reserve Rs.1,20,000

5%Pref. Share Capital Rs.60,000, Fixed Assets Rs.5,05,000, Current Assets Rs. 1,20,000.
Current Liability Rs.40,000, Loan 10% Interest 5,00,000. Tax paid during the year Rs.30,000

Profit for the current year after interest and tax Rs 90,000

Ans: (i) Debt-Equity Ratio=1.06:1 (ii) Interest Coverage Ratio=3.4 times (iii) Proprietary Ratio=0.752:1

Q8. From the following information calculate Return on investment (or Return on Capital Employed).

Share Capital Rs. 0,000, Reserve & Surplus Rs.25,000, Net Fixed Assets Rs.2,25,000,

Non-Current Trade Investment Rs. 25,000,

12% Long Term Borrowings Rs. 2,00,000, Current Assets Rs.1,10,000. Current Liability Rs.85,000. Net Profit before Tax Rs.60,000.

Answer- ROI=30.55%