CHAPTER

4

Accounting Ratios

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Ratio	It is an arithmetical expression of relationship between two interdependent or related items.
2. Accounting Ratio	Accounting Ratio means ratio calculated on the basis of accounting information.
3. Pure Ratio	It is a ratio expressed as quotient. For example, 2 : 1.
4. Percentage	It is a ratio expressed in percentage. For example, 25%.
5. Times	It is a ratio expressed in number of times. For example, 3 Times.
6. Fraction	It is a ratio expressed as fraction. For example, $\frac{3}{4}$ or .75.
7. Liquidity Ratios	These ratios measure the ability of the enterprise to meet its short-term financial commitments. These include: Current Ratio and Quick Ratio/Liquid Ratio/Acid Test Ratio.
8. Solvency Ratios	These ratios measure long-term financial position of the enterprise. These include: Debt to Equity Ratio; Total Assets to Debt Ratio; Proprietary Ratio; Interest Coverage Ratio and Debt to Capital Employed Ratio.
9. Activity or Turnover Ratios	These ratios measure efficiency in use of assets of the enterprise in generating sales. These include: Inventory Turnover Ratio; Trade Receivables Turnover Ratio; Trade Payables Turnover Ratio; Working Capital Turnover Ratio; Fixed Assets Turnover Ratio and Net Assets Turnover Ratio.
10. Profitability Ratios	These ratios show the profitability of the enterprise. These include: Gross Profit Ratio; Operating Ratio; Operating Profit Ratio; Net Profit Ratio and Return on Investment (ROI).

CHAPTER SUMMARY

- **Accounting Ratio** is a mathematical expression of the relationship between two related or interdependent items or group of items shown in the financial statements.

- **Ratio Analysis** is the process of computing, determining and presenting the relationship of related or interdependent items or group of items in the financial statements. It is an important technique of financial analysis.

- **Objectives of Ratio Analysis**
  1. To assess the earning capacity, financial position and operating efficiency of an enterprise.
  2. To simplify the accounting information.
  3. To help in comparative analysis.

- **Uses of Ratio Analysis:** Ratio Analysis is useful in:
  1. Analysis of financial statements.
  2. Assessing the profitability of the business.
  3. Assessing the liquidity or short-term solvency of the business.
  4. Assessing the long-term solvency of the business.
  5. Assessing the operating efficiency of the business.
  6. Intra-firm and inter-firm comparison.
  7. Locating the weak areas of the business.

- **Limitations of Ratio Analysis**
  1. *Qualitative Factors are Ignored:* Ratio analysis is a technique of quantitative analysis and thus, ignores qualitative factors, which may be important in decision-making.
  2. *Lack of Standard Ratio:* There is almost no single standard ratio against which the actual ratio may be measured and compared.
  3. *False Results if Based on Incorrect Information:* Conclusions drawn may be misleading if ratios are based on incorrect accounting information.
  4. *May not be Comparable:* Ratios may not be comparable if different enterprises (firm/companies) follow different accounting policies and procedures.

- **Classification of Accounting Ratios**
  1. *Liquidity Ratios:* (i) Current Ratio; and (ii) Quick Ratio.
  2. *Solvency Ratios:* (i) Debt to Equity Ratio; (ii) Proprietary Ratio; (iii) Total Assets to Debt Ratio; (iv) Interest Coverage Ratio; and (v) Debt to Capital Employed Ratio.
  3. *Activity Ratios:* (i) Inventory Turnover Ratio; (ii) Trade Receivables Turnover Ratio; (iii) Trade Payables Turnover Ratio; (iv) Working Capital Turnover Ratio; (v) Fixed Assets Turnover Ratio and (vi) Net Assets Turnover Ratio.
  4. *Profitability Ratios:* (i) Gross Profit Ratio; (ii) Operating Ratio; (iii) Operating Profit Ratio; (iv) Net Profit Ratio; and (v) Return on Investment.

Table Showing Summary of Accounting Ratios

Ratio	*Significance*	*How Expressed*	*Remarks*
	I. LIQUIDITY RATIOS		
1. **Current Ratio** $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	This ratio shows short-term financial soundness of the business. Higher ratio means better capacity to meet its current obligation. *The ideal Current Ratio* is 2 : 1.	Pure Ratio	Current Assets = Current Investments + Inventories (Excluding Stores and Spares and Loose Tools) + Trade Receivables (Net of Provision for Doubtful Debts) + Cash and Cash Equivalents + Short-term Loans and Advances + Other Current Assets + Short-term Investments. Current Liabilities = Short-term Borrowings + Trade Payables + Other Current Liabilities + Short-term Provisions.
2. **Liquid Ratio/Acid Test Ratio/ Quick Ratio** $= \frac{\text{Liquid Assets or Quick Assets}}{\text{Current Liabilities}}$	Liquid Ratio is a fairly stringent measure of liquidity. It is based on those current assets which are highly liquid, *i.e.*, can be converted into Cash and Cash Equivalents quickly. Quick Ratio of 1 : 1 is considered as ideal. Higher the Quick Ratio better the short-term financial position.	Pure Ratio	Quick Assets = Current Assets – Inventories – Prepaid Expenses. Current Liabilities have same meaning as in Current Ratio. **Note:** Inventories and prepaid expenses are not considered as Quick Assets.
	II. SOLVENCY RATIOS		
1. **Debt to Equity Ratio** $= \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$	This ratio assesses the long-term financial position and soundness of enterprises. In general, lower the Debt to Equity Ratio higher the degree of protection enjoyed by the lenders.	Pure Ratio	Debt = Long-term Borrowings, (*i.e.*, debentures, mortgage loans, public deposits) + Long-term Provisions. Equity (Shareholders' Funds) = Share Capital + Reserves and Surplus. *Or* Non-current Assets (Property, Plant and Equipment + Intangible Assets + Non-current (Trade) Investments + Long-term Loans and Advances) + Working Capital – Non-current Liabilities (Long-term Borrowings + Long-term Provisions). Working Capital = Current Assets – Current Liabilities.
2. **Total Asset to Debt Ratio** $= \frac{\text{Total Assets}}{\text{Debt}}$	This ratio measures the safety margin available to lenders of long-term debts. It measures the extent to which debt is being covered by assets.	Pure Ratio, *e.g.*, 2 : 1	Total Assets = Non-current Assets (Property, Plant and Equipment + Intangible Assets + Non-current Investments + Long-term Loans and Advances) + Current Assets [Current Investments + Inventories (including Loose Tools and Stores and Spares) + Trade Receivables + Cash and Cash Equivalents + Short-term Loans and Advances + Other Current Assets]. Debt = Long-term Borrowings + Long-term Provisions.

3. **Proprietary Ratio** = Shareholders' Funds or Proprietors' Funds or Equity / Total Assets	This ratio shows the extent to which total assets have been financed by the proprietor. Higher the ratio, higher the safety margin for unsecured lenders and creditors.	Pure Ratio or %	Shareholders' Funds = Share Capital + Reserves and Surplus. Total Assets has the same meaning as in Total Assets to Debt Ratio.
4. **Interest Coverage Ratio** = Profit before Interest and Tax / Interest on Long-term Debt	This ratio shows how many times the interest charges are covered by the profits available to pay interest. Higher the ratio, more security for the lender is in respect of payment of interest regularly.	Times	Profit before Interest and Tax = Profit after Tax + Tax + Interest.
5. **Debt to Capital Employed Ratio** = Long-term Debt / Capital Employed	This ratio shows the amount of Long-term Debts in Capital Employed. Low ratio means more security to lenders and high ratio means lesser security to lenders.	Pure Ratio	Debt means Long-term Debts, *i.e.*, Non-current Liabilities. Capital Employed = Shareholders' Funds + Long-term Debts.
	III. ACTIVITY RATIOS/TURNOVER RATIOS		
1. **Inventory Turnover Ratio** = Cost of Revenue from Operations / Average Inventory	This ratio measures how fast Inventory is moving and generating sales. Higher the ratio, more efficient management of inventories and vice versa.	Times	Average Inventory = (Opening Inventory + Closing Inventory) / 2
2. **Trade Receivables Turnover Ratio** = Credit Revenue from Operations / Average Trade Receivables	This ratio shows efficiency in the collection of amount due from trade receivables. Higher the ratio, better it is since it indicates that debts are being collected more quickly.	Times	Trade Receivables means debtors *plus* bills receivable. Provision for Doubtful Debts is not deducted. Average Trade Receivables = [(Opening Debtors + Opening Bills Receivable) + (Closing Debtors + Closing Bills Receivable)] / 2
3. **Trade Payables Turnover Ratio** = Net Credit Purchases / Average Trade Payables	It shows the number of times the creditors are turned over in relation to purchases. A high turnover ratio or shorter payment period shows the availability of less credit or early payments.	Times	Trade Payables means creditors *plus* bills payable. Average Trade Payables = [(Opening Creditors + Opening Bills Payable) + (Closing Creditors + Closing Bills Payable)] / 2
4. **Working Capital Turnover Ratio** = Revenue from Operations / Working Capital	This ratio shows the number of times working capital has been employed in the process of carrying on business. Higher the ratio, better the efficiency in the utilisation of working capital.	Times	Working Capital = Current Assets – Current Liabilities.
5. **Fixed Assets Turnover Ratio** = Revenue from Operations / Fixed Assets (Net)	This ratio shows the efficiency with which the fixed assets have been used in earning revenue from operations during the year. A high ratio means efficient utilisation of fixed assets while low ratio means inefficient utilisation of fixed assets.	Times	Revenue from Operations means Gross Revenue *less* Sales Return, if any. In terms of sales, it means Gross Sales *less* Sales Return, *i.e.*, Net Sales. Net Fixed Assets means Fixed Assets (Cost) – Depreciation.

6 **Net Assets or Capital Employed Turnover Ratio** $= \frac{\text{Revenue from Operations}}{\text{Capital Employed}}$	This ratio shows the number of times Net Assets or Capital Employed is rotated or used in generating Revenue from Operations. Higher turnover ratio means better and efficient utilisation of net assets or capital employed and thus, higher profitability & liquidity.	Times	Revenue from operations means Gross Revenue *less* Sales Return. In terms of sales, it means Gross Sales *less* Sales Return. Net Assets = Total Assets – Current Liabilities.
	IV. PROFITABILITY RATIOS		
1. **Gross Profit Ratio** $= \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$	This ratio indicates the relationship between gross profit and revenue from operations (Net sales). Higher the Ratio, lower the cost of goods sold.	%	Gross Profit = Revenue from Operations – Cost of Revenue from Operations. Cost of Revenue from Operations = Opening Inventory (excluding Stores and Spares and Loose Tools) + Net Purchases + Direct Expenses – Closing Inventory (excluding Stores and Spares and Loose Tools). *Or* Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses. *If direct expenses are not given, assume them to be nil.*
2. **Operating Ratio** $= \frac{\text{Cost of Revenue from Operations + Operating Expenses}}{\text{Revenue from Operations}} \times 100$ *Or* $\frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$	This ratio is calculated to assess the operational efficiency of the business. A decline in the operating ratio, is better because it means higher margin, and thus, more profit.	%	Cost of Revenue from Operations = Opening Inventory (excluding Stores and Spares and Loose Tools) + Net Purchases + Direct Expenses – Closing Inventory (excluding Stores and Spares and Loose Tools). *Or* Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Inventories of Finished Goods, WIP and Stock-in-Trade + Direct Expenses. *Or* Revenue from Operations – Gross Profit. *If Direct Expenses are not given, assume them to be nil.* Operating Expenses = Employees Benefit Expenses + Depreciation and Amortisation Expenses + Other Expenses (Other than Non-operating Expenses). Revenue from Operations = Sales –Sales Return.
3. **Operating Profit Ratio** $= \frac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100$	The objective of computing this ratio is to determine the operational efficiency of management.	%	Operating Profit = Net Profit (Before Tax) + Non-operating Expenses – Non-operating Income. *Or* = Gross Profit + Other Operating Income – Other Operating Expenses. Non-operating Expenses = Interest on Long-term Borrowings + Loss on Sale of Fixed Assets or Non-current Assets. Non-operating Income = Interest received on investments + Gain (Profit) on Sale of Fixed Assets or Non-current Assets.
4. **Net Profit Ratio** $= \frac{\text{Net Profit after Tax}}{\text{Revenue from Operations}} \times 100$	It indicates overall efficiency of the business. Higher the net profit ratio, better the business.	%	Net Profit after Tax = Gross Profit + Other Income – Indirect Expenses – Tax.
5. **Return on Investment or Return on Capital Employed** $= \frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$	It assesses the overall performance of the enterprise. It measures how efficiently the resources entrusted to the business are used.	%	Capital Employed: *Liabilities Side Approach:* Share Capital + Reserves and Surplus + Long-term Borrowings + Long-term Provisions. *Assets Side Approach:* Non-Current Assets + Working Capital. Working Capital = Current Assets – Current Liabilities. (Assume that all Non-current Investments are Trade Investments) (Interest on Non-trade Investments should be deducted from Profit before Interest, Tax and Dividend.)

SOLVED QUESTIONS

Illustration 1.

From the following Balance Sheet of Warmex Ltd. as at 31st March, 2026, calculate Current Ratio:

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		5,00,000
(*b*) Reserves and Surplus		(50,000)
2. Non-Current Liabilities		
Long-term Borrowings		2,75,000
3. Current Liabilities		
(*a*) Short-term Borrowings		2,50,000
(*b*) Trade Payables		50,000
(*c*) Short-term Provisions		75,000
Total		11,00,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Property, Plant and Equipment and Intangible Assets:*		
(*i*) Property, Plant and Equipment		4,50,000
(*ii*) Intangible Assets		50,000
(*b*) Non-current Investments		50,000
2. Current Assets		
(*a*) Current Investments		1,00,000
(*b*) Inventories		1,50,000
(*c*) Trade Receivables		1,75,000
(*d*) Cash and Cash Equivalents		1,25,000
Total		11,00,000

Solution:

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

$$= \frac{₹\ 5,50,000}{₹\ 3,75,000} = \mathbf{1.47 : 1}.$$

Current Assets = Current Investments + Inventories + Trade Receivables + Cash and Cash Equivalents

= ₹ 1,00,000 + ₹ 1,50,000 + ₹ 1,75,000 + ₹ 1,25,000 = ₹ 5,50,000.

Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions

= ₹ 2,50,000 + ₹ 50,000 + ₹ 75,000 = ₹ 3,75,000.

Illustration 2.

From the following Balance Sheet of Galaxy Ltd., compute Debt to Equity Ratio:

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		7,00,000
(*b*) Reserves and Surplus		2,00,000
2. Non-Current Liabilities		
(*a*) Long-term Borrowings		15,00,000
(*b*) Long-term Provisions		57,500
3. Current Liabilities		
(*a*) Trade Payables		2,50,000
(*b*) Other Current Liabilities		55,000
(*c*) Short-term Provisions		25,000
Total		27,87,500
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
—Property, Plant and Equipment		17,47,500
2. Current Assets		
(*a*) Inventories		5,00,000
(*b*) Trade Receivables		3,50,000
(*c*) Cash and Cash Equivalents		1,75,000
(*d*) Other Current Assets	1	15,000
Total		27,87,500

Note to Accounts

Particulars	₹
1. Other Current Assets	
Accrued Income	10,000
Prepaid Expenses	5,000
	15,000

Solution:

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$$

$$= \frac{₹\,15,57,500}{₹\,9,00,000} = \mathbf{1.73 : 1.}$$

Debt = Long-term Borrowings + Long-term Provisions
= ₹ 15,00,000 + ₹ 57,500 = ₹ 15,57,500.

Equity or Shareholders' Funds = Share Capital + Reserves and Surplus
= ₹ 7,00,000 + ₹ 2,00,000 = ₹ 9,00,000.

Illustration 3.

From the following Balance Sheet, calculate Total Assets to Debt Ratio:

BALANCE SHEET OF GOOD LUCK LTD. *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		3,00,000
(*b*) Reserves and Surplus		(90,000)
2. Non-Current Liabilities		
(*a*) Long-term Borrowings		4,50,000
(*b*) Long-term Provisions		50,000
3. Current Liabilities		
(*a*) Trade Payables		1,30,000
(*b*) Short-term Provisions		10,000
Total		8,50,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Property, Plant and Equipment and Intangible Assets:*		
—Property, Plant and Equipment		4,80,000
(*b*) Non-current Investments	1	50,000
2. Current Assets		
(*a*) Inventories		1,14,000
(*b*) Trade Receivables		1,26,000
(*c*) Cash and Cash Equivalents		70,000
(*d*) Other Current Assets		10,000
Total		8,50,000

Note to Accounts

Particulars	₹
1. Non-Current Investments	
Government Securities	40,000
Shares in Listed Companies	10,000
	50,000

Solution: Total Assets to Debt Ratio = $\frac{\text{Total Assets}}{\text{Debt}} = \frac{₹\ 8,50,000}{₹\ 5,00,000}$ = **1.70 : 1**.

Total Assets = Non-current Assets (*i.e.*, Property, Plant and Equipment + Non-current Investments) + Current Assets (*i.e.*, Inventories + Trade Receivables + Cash and Cash Equivalents + Other Current Assets)

= ₹ 4,80,000 + ₹ 50,000 + ₹ 1,14,000 + ₹ 1,26,000 + ₹ 70,000 + ₹ 10,000

= ₹ 8,50,000.

Debt = Long-term Borrowings + Long-term Provisions

= ₹ 4,50,000 + ₹ 50,000 = ₹ 5,00,000.

Illustration 4.

From the following Balance Sheet of Channel Ltd., compute Shareholders' Funds by following Liabilities Side Approach and Assets Side Approach:

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		5,00,000
(*b*) Reserves and Surplus		4,00,000
2. Non-Current Liabilities		
Long-term Borrowings		5,00,000
3. Current Liabilities		
(*a*) Trade Payables		1,50,000
(*b*) Short-term Provisions		50,000
Total		16,00,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
(*i*) Property, Plant and Equipment		9,68,000
(*ii*) Intangible Assets		90,000
2. Current Assets		
(*a*) Inventories		3,00,000
(*b*) Trade Receivables		1,60,000
(*c*) Cash and Cash Equivalents		82,000
Total		16,00,000

Solution:

Particulars	₹
Shareholders' Funds under Liabilities Side Approach:	
Share Capital	5,00,000
Reserves and Surplus	4,00,000
Shareholders' Funds	**9,00,000**
Shareholders' Funds under Assets Side Approach:	
Property, Plant and Equipment and Intangible Assets (Property, Plant and Equipment + Intangible)	10,58,000
Add: Working Capital (Note)	3,42,000
	14,00,000
Less: Non-current Liabilities (Long-term Borrowings)	5,00,000
Shareholders' Funds	**9,00,000**

Working Note:

Current Assets	₹	*Current Liabilities*	₹
Inventories	3,00,000	Trade Payables	1,50,000
Trade Receivables	1,60,000	Other Current Liabilities	50,000
Cash and Cash Equivalents	82,000		
	5,42,000		2,00,000

Working Capital = Current Assets – Current Liabilities = ₹ 5,42,000 – ₹ 2,00,000 = ₹ 3,42,000.

Illustration 5.

From the following Balance Sheet of *XYZ* Ltd., calculate:

(*i*) Debt to Equity Ratio; (*ii*) Proprietary Ratio, and (*iii*) Total Assets to Debt Ratio.

BALANCE SHEET OF *XYZ* LTD. *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Equity Share Capital		15,00,000
(*b*) Reserves and Surplus		3,00,000
2. Non-Current Liabilities		
Long-term Borrowings		9,00,000
3. Current Liabilities		
(*a*) Short-term Borrowings		2,00,000
(*b*) Trade Payables		11,00,000
Total		40,00,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Property, Plant and Equipment and Intangible Assets:*		
—Property, Plant and Equipment		16,50,000
(*b*) Long-term Investments		1,60,000
2. Current Assets		
(*a*) Inventories		9,10,000
(*b*) Trade Receivables		12,40,000
(*c*) Cash and Cash Equivalents		40,000
Total		40,00,000

Solution:

(*i*) Debt to Equity Ratio $= \dfrac{\text{Debt (WN 1)}}{\text{Equity (Shareholders' Funds) (WN 2)}}$

$$= \frac{₹\,9,00,000}{₹\,18,00,000} = \mathbf{0.50 : 1.}$$

Working Notes:

1. Debt = Long-term Borrowings = ₹ 9,00,000.
2. Equity (Shareholders' Funds) = Equity Share Capital + Reserves and Surplus
   = ₹ 15,00,000 + ₹ 3,00,000 = ₹ 18,00,000.

(*ii*) Proprietary Ratio $= \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}} = \dfrac{₹\,18,00,000}{₹\,40,00,000} = \mathbf{0.45 : 1.}$

(*iii*) Total Assets to Debt Ratio $= \dfrac{\text{Total Assets}}{\text{Debt}} = \dfrac{₹\,40,00,000}{₹\,9,00,000} = \mathbf{4.44 : 1.}$

Illustration 6.

Following is the Statement of Profit & Loss of Hindustan Products Limited for the year ended 31st March, 2026 and the Balance Sheet of the company as at that date:

STATEMENT OF PROFIT & LOSS *for the year ended 31st March, 2026*

Particulars	Note No.	₹
I. Revenue from Operations		8,00,000
II. *Expenses:*		
Purchases of Stock-in-Trade		5,45,000
Change in Inventories of Stock-in-Trade	1	(1,00,000)
Other Expenses		2,95,000
Total Expenses		7,40,000
III. Profit for the Period (I – II)		60,000

Note: Other expenses include direct expenses of ₹ 15,000.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		2,90,000
(*b*) Reserves and Surplus		60,000
2. Current Liabilities		
(*a*) Trade Payables (Creditors)		1,15,000
(*b*) Other Current Liabilities (Outstanding Expenses)		15,000
Total		4,80,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
—Property, Plant and Equipment		2,30,000
2. Current Assets		
(*a*) Inventories (Stock)		1,99,000
(*b*) Trade Receivables (Debtors)		21,000
(*c*) Cash and Cash Equivalents		30,000
Total		4,80,000

Note to Accounts

Particulars	₹
1. Change in Inventories of Stock-in-Trade	
Opening Inventory	99,000
Less: Closing Inventory	1,99,000
	(1,00,000)

Calculate the following ratios:

(*i*) Quick Ratio and (*ii*) Inventory Turnover Ratio.

Solution:

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

$$= \frac{\text{Cash and Cash Equivalents} + \text{Trade Receivables (Debtors)}}{\text{Trade Payables} + \text{Outstanding Expenses}}$$

$$= \frac{₹\ 30,000 + ₹\ 21,000}{₹\ 1,15,000 + ₹\ 15,000} = \frac{₹\ 51,000}{₹\ 1,30,000} = 0.39 : 1.$$

(*ii*) Inventory Turnover Ratio

$$= \frac{\text{Cost of Revenue from Operations, } i.e., \text{ Cost of Goods Sold}}{\text{Average Inventory}}$$

$$= \frac{₹\ 4,60,000}{₹\ 1,49,000} = 3.09 \text{ Times.}$$

Working Notes:

1. Cost of Revenue from Operations, *i.e.*, Cost of Goods Sold
   = Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade + Direct Expenses
   = ₹ 5,45,000 – ₹ 1,00,000 + ₹ 15,000 = ₹ 4,60,000.
2. Average Inventory = (Opening Inventory + Closing Inventory)/2
   = (₹ 99,000 + ₹ 1,99,000)/2 = ₹ 1,49,000.

Illustration 7.

From the following Statement of Profit & Loss, calculate Inventory Turnover Ratio:

STATEMENT OF PROFIT & LOSS *for the year ended 31st March, 2026*

Particulars	Note No.	₹
I. Revenue from Operations (Sale)		5,00,000
II. *Expenses:*		
Purchases of Stock-in-Trade		3,00,000
Change in Inventories of Stock-in-Trade	1	60,000
Employee Benefit Expenses	2	40,000
Finance Costs		10,000
Depreciation and Amortisation		20,000
Other Expenses	3	20,000
Total		4,50,000
III. Profit before Tax (I – II)		50,000
IV. *Tax Expenses:* Current Tax		17,500
V. Profit after Tax (III – IV)		32,500

Notes to Accounts

Particulars	₹
1. Change in Inventories of Stock-in-Trade	
Opening Inventory	1,00,000
Less: Closing Inventory	40,000
	60,000
2. Employee Benefit Expenses	
Wages	10,000
Salaries	30,000
	40,000
3. Other Expenses	
Carriage Inwards	5,000
Carriage Outwards	5,000
Miscellaneous Expenses	10,000
	20,000

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

$= \frac{₹\ 3,75,000}{₹\ 70,000} =$ **5.36 Times.**

Cost of Revenue from Operations = Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade + Direct Expenses (*i.e.*, Wages + Carriage Inwards)

= ₹ 3,00,000 + ₹ 60,000 + ₹ 10,000 + ₹ 5,000 = ₹ 3,75,000.

Average Inventory = $\frac{\text{Opening Inventory + Closing Inventory}}{2}$

$= \frac{₹\ 1,00,000 + ₹\ 40,000}{2} = ₹\ 70,000$.

Illustration 8.

From the following Statement of Profit & Loss, calculate Inventory Turnover Ratio:

STATEMENT OF PROFIT & LOSS *for the year ended 31st March, 2026*

Particulars	Note No.	₹
I. Revenue from Operations		50,00,000
II. Other Income		1,00,000
III. Total Revenue (I + II)		51,00,000
IV. *Expenses:*		
Cost of Materials Consumed		18,00,000
Changes in Inventories of Finished Goods and Work-in-Progress	1	(1,00,000)
Employee Benefit Expenses		7,00,000
Finance Costs		1,00,000
Depreciation and Amortisation		50,000
Other Expenses	2	6,50,000
Total Expenses		32,00,000
V. Profit before Tax (III – IV)		19,00,000
VI. *Tax Expenses:* Current Tax		5,00,000
VII. Profit after Tax (V – VI)		14,00,000

Notes to Accounts

Particulars	₹
1. Changes in Inventories of Finished Goods and Work-in-Progress	
Opening	2,00,000
Less: Closing	3,00,000
	(1,00,000)
2. Other Expenses	
Direct Carriage Inwards, Octroi, etc.	3,00,000
Indirect General and Administration Expenses	3,50,000
	6,50,000

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

$= \frac{₹\ 20,00,000}{₹\ 2,50,000} = 8$ Times.

Working Notes:

1. Cost of Revenue from Operations = Cost of Materials Consumed + Changes in Inventories of Finished Goods and Work-in-Progress + Direct Expenses
   = ₹ 18,00,000 – ₹ 1,00,000 + ₹ 3,00,000 = ₹ 20,00,000.

2. Average Inventory = $\frac{\text{Opening Inventory + Closing Inventory}}{2}$

   $= \frac{1}{2}$ (₹ 2,00,000 + ₹ 3,00,000) = ₹ 2,50,000.

Illustration 9.

From the following Balance Sheet of Sure Success Ltd. as at 31st March, 2026, calculate Return on Investment:

Particulars		31st March, 2026 (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
(*a*) *Share Capital:*		
50,000 Equity Shares of ₹ 10 each		5,00,000
5,000; 9% Preference Shares of ₹ 10 each		50,000
(*b*) *Reserves and Surplus:*		
Surplus, *i.e.*, Balance in Statement of Profit & Loss		1,25,000
2. Non-Current Liabilities		
Long-term Borrowings (12% Debentures)		4,00,000
3. Current Liabilities (Trade Payables)		1,70,000
Total		12,45,000
II. Assets		
1. Non-Current Assets		
(*a*) *Property, Plant and Equipment and Intangible Assets:*		
— Property, Plant and Equipment	11,50,000	
Less: Accumulated Depreciation	2,00,000	9,50,000
(*b*) *Non-current Investment:*		
10% Trade Investment		50,000
10% Other Investment (Face Value ₹ 35,000)		25,000
2. Current Assets		2,20,000
Total		12,45,000

Additional Information:

Net Profit after Interest and Tax for the year ended 31st March, 2026 was ₹ 1,21,500; Tax Rate: 40%.

Solution:

Return on Investment (ROI) = $\frac{\text{Net Profit before Interest, Tax and Dividend (WN 1)}}{\text{Capital Employed}} \times 100$

$= \frac{₹\ 2,47,000}{₹\ 10,50,000} \times 100 =$ **23.52%.**

Working Notes:

1. *Calculation of Net Profit before Interest and Tax:*

Let the Net Profit before Tax = ₹ 100

Tax = 40%

So, Net Profit after Tax = ₹ 100 – ₹ 40 = ₹ 60.

If Net Profit after Tax is ₹ 60, then Net Profit before Tax = ₹ 100.

If Net Profit after Tax is ₹ 1, then Net Profit before Tax = $\frac{₹100}{₹60}$.

If Net Profit after Tax is ₹ 1,21,500, then Net Profit before Tax = $\frac{₹100}{₹60} \times$ ₹ 1,21,500

= ₹ 2,02,500.

	₹
Net Profit before Tax	2,02,500
Add: Interest on Debentures (₹ 4,00,000 × 12/100)	48,000
	2,50,500
Less: Interest on Non-trade Investment $\left[₹35,000 \times \frac{10}{100}\right]$	3,500
Net Profit before Interest and Tax	2,47,000

2. *Calculation of Capital Employed:*

A. *Liabilities Side Approach*

Capital Employed = Equity Share Capital + Preference Share Capital + Reserves and Surplus + Long-term Borrowings – Non-trade Investment

= ₹ 5,00,000 + ₹ 50,000 + ₹ 1,25,000 + ₹ 4,00,000 – ₹ 25,000 = ₹ 10,50,000.

B. *Assets Side Approach*

Capital Employed = Net Fixed Assets + Trade Investment + Working Capital*

= ₹ 9,50,000 + ₹ 50,000 + ₹ 50,000 = ₹ 10,50,000.

*Working Capital = Current Assets – Current Liabilities

= ₹ 2,20,000 – ₹ 1,70,000 = ₹ 50,000.

Illustration 10.

Vijay owns a business and gives the following information:

Particulars	31st March, 2025 (₹)	31st March, 2026 (₹)
Net Sales	9,00,000	18,00,000
Gross Profit	2,25,000	3,60,000
Current Assets	3,00,000	4,50,000
Current Liabilities	1,50,000	2,50,000

He is of the opinion that his manager Rajeev is very efficient as there is an increase in profit from ₹ 2,25,000 to ₹ 3,60,000 by his efforts.

Again his current assets have increased from ₹ 3,00,000 to ₹ 4,50,000 whereas current liabilities have increased only by ₹ 1,00,000 and thus his short-term financial position is also becoming strong.

Do you agree with him? State yes/no. Give reasons for your answer.

Solution:

Undoubtedly, there is an increase in gross profit from ₹ 2,25,000 to ₹ 3,60,000, *i.e.*, ₹ 1,35,000. But this is not the test of efficiency of the manager. There is an increase in Net Sales also.

Therefore, we have to calculate Gross Profit Ratio to check the efficiency of the manager.

Gross Profit Ratio for the year ended 31st March, 2025 = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$

$= \frac{₹\ 2,25,000}{₹\ 9,00,000} \times 100 = \mathbf{25\%}.$

Gross Profit Ratio for the year ended 31st March, 2026 = $\frac{₹\ 3,60,000}{₹\ 18,00,000} \times 100 = \mathbf{20\%}.$

Gross Profit Ratio has decreased from 25% to 20%, which shows that margin of profit has decreased in the year ended 31st March, 2026 and Vijay is wrong in his decision.

To test the short-term financial position of the company, we have to calculate Current Ratio.

Current Ratio for the year ended 31st March, 2025 = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\ 3,00,000}{₹\ 1,50,000} = 2:1$.

Current Ratio for the year ended 31st March, 2026 = $\frac{₹\ 4,50,000}{₹\ 2,50,000}$ = **9 : 5 or 1.80 : 1**.

Since, Current Ratio has decreased from 2 in 2025 to 1.8 in 2026, financial position of the company has become weak. So Vijay is again incorrect in his decision that short-term financial position of the company is becoming strong.

Illustration 11.

From the following information, calculate Operating Ratio:

STATEMENT OF PROFIT & LOSS *for the year ended 31st March, 2026*

Particulars	Note No.	₹
I. Revenue from Operations		50,00,000
II. Other Income		1,00,000
III. Total Revenue		51,00,000
IV. *Expenses:*		
Purchases of Stock-in-Trade		27,00,000
Change in Inventories of Stock-in-Trade		(2,00,000)
Employee Benefit Expenses		3,10,000
Depreciation		90,000
Finance Cost		1,00,000
Other Expenses	1	2,50,000
Total Expenses		32,50,000
V. Profit before Tax (III – IV)		18,50,000

Note to Accounts

Particulars	₹
1. Other Expenses	
Office Expenses	1,20,000
Selling and Distribution Expenses	80,000
Loss on Sale of Fixed Assets	50,000
	2,50,000

Solution: $$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,31,00,000}{₹\,50,00,000} \times 100 = 62\%.$$

Note: Operating Cost = Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade + Employee Benefit Expenses + Depreciation + Office Expenses + Selling and Distribution Expenses

= ₹ 27,00,000 – ₹ 2,00,000 + ₹ 3,10,000 + ₹ 90,000 + ₹ 1,20,000 + ₹ 80,000

= ₹ 31,00,000.

Total Assets to Debt Ratio

Illustration 12.

Following is the Balance Sheet of Hyatt Ltd. as at 31st March, 2026. You are required to calculate Total Assets to Debt Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital	1	10,00,000	7,50,000
(*b*) Reserves and Surplus		3,00,000	2,50,000
2. Non-Current Liabilities			
(*a*) Long-term Borrowings		24,00,000	8,00,000
(*b*) Long-term Provisions		2,00,000	1,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	1,50,000
(*b*) Short-term Provisions		1,00,000	...
Total		42,00,000	21,00,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		20,00,000	11,50,000
2. Current Assets			
(*a*) Inventories		9,00,000	4,00,000
(*b*) Trade Receivables		11,50,000	4,50,000
(*c*) Cash and Cash Equivalents		1,50,000	1,00,000
Total		42,00,000	21,00,000

Note to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Share Capital		
Equity Share Capital	7,50,000	5,00,000
Preference Share Capital	2,50,000	2,50,000
	10,00,000	7,50,000

Solution:

Total Assets to Debt Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Total Assets}}{\text{Debt (Long-term Debts)}}$	$= \frac{₹\ 42,00,000}{₹\ 26,00,000}$	$= \frac{₹\ 21,00,000}{₹\ 9,00,000}$
	= 1.62 : 1	**= 2.33 : 1**

Working Note:

	31st March, 2026 (₹)	31st March, 2025 (₹)
Total Assets =	₹ 42,00,000	₹ 21,00,000
Debt = Long-term Borrowings + Long-term Provisions =	₹ 26,00,000	₹ 9,00,000

Debt to Equity Ratio

Illustration 13.

Following is the Balance Sheet of Zee Ltd. as at 31st March, 2026. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		10,00,000	7,50,000
(*b*) Reserves and Surplus		3,00,000	2,50,000
2. Non-Current Liabilities			
(*a*) Long-term Borrowings		24,00,000	8,00,000
(*b*) Long-term Provisions		2,00,000	1,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	1,50,000
(*b*) Trade Payables		3,50,000	1,50,000
(*c*) Short-term Provisions		1,50,000	50,000
Total		46,00,000	22,50,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		20,00,000	11,50,000
2. Current Assets			
(*a*) Inventories		10,00,000	4,50,000
(*b*) Trade Receivables		12,50,000	5,00,000
(*c*) Cash and Cash Equivalents		3,50,000	1,50,000
Total		46,00,000	22,50,000

Solution:

Debt to Equity Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$	$= \frac{₹\ 26,00,000}{₹\ 13,00,000}$	$= \frac{₹\ 9,00,000}{₹\ 10,00,000}$
	= 2 : 1	**= 0.90 : 1**

Working Note:

	₹	₹
Debt = Long-term Borrowings + Long-term Provisions		
2026 = ₹ 24,00,000 + ₹ 2,00,000	26,00,000	
2025 = ₹ 8,00,000 + ₹ 1,00,000		9,00,000
Equity or Shareholders' Funds = Share Capital + Reserves and Surplus		
2026 = ₹ 10,00,000 + ₹ 3,00,000	13,00,000	
2025 = ₹ 7,50,000 + ₹ 2,50,000		10,00,000

Alternatively:

Equity = Non-current Assets + Current Assets – (Non-current Liabilities – Current Liabilities)		
2026 = ₹ 20,00,000 + ₹ 26,00,000 – ₹ 24,00,000 – ₹ 2,00,000 – ₹ 7,00,000	13,00,000	
2025 = ₹ 11,50,000 + ₹ 11,00,000 – ₹ 8,00,000 – ₹ 1,00,000 – ₹ 3,50,000		10,00,000

Illustration 14.

Following is the Balance Sheet of Exe Ltd. as at 31st March, 2026. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		10,00,000	7,50,000
(*b*) Reserves and Surplus		5,00,000	2,50,000
2. Non-Current Liabilities			
(*a*) Long-term Borrowings		8,00,000	4,00,000
(*b*) Long-term Provisions		2,00,000	1,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	1,50,000
(*b*) Trade Payables		3,50,000	1,50,000
(*c*) Short-term Provisions		1,50,000	50,000
Total		32,00,000	18,50,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		14,00,000	9,50,000
2. Current Assets			
(*a*) Inventories		7,50,000	4,50,000
(*b*) Trade Receivables		7,50,000	2,50,000
(*c*) Cash and Cash Equivalents		3,00,000	2,00,000
Total		32,00,000	18,50,000

Solution:

Debt to Equity Ratio $= \dfrac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$

31st March, 2026	**31st March, 2025**
$= \dfrac{₹\,10,00,000}{₹\,15,00,000}$	$= \dfrac{₹\,5,00,000}{₹\,10,00,000}$
= 0.67 : 1	**= 0.50 : 1**

Working Note:	₹	₹
Debt = Long-term Borrowings + Long-term Provisions		
2026 = ₹ 8,00,000 + ₹ 2,00,000	10,00,000	
2025 = ₹ 4,00,000 + ₹ 1,00,000		5,00,000
Equity or Shareholders' Funds = Share Capital + Reserves and Surplus		
2026 = ₹ 10,00,000 + ₹ 5,00,000	15,00,000	
2025 = ₹ 7,50,000 + ₹ 2,50,000		10,00,000
Alternatively: Equity = Non-current Assets + Current Assets – (Non-current Liabilities – Current Liabilities)		
2026 = ₹ 14,00,000 + ₹ 18,00,000 – ₹ 8,00,000 – ₹ 2,00,000 – ₹ 7,00,000	15,00,000	
2025 = ₹ 9,50,000 + ₹ 9,00,000 – ₹ 4,00,000 – ₹ 1,00,000 – ₹ 3,50,000		10,00,000

Illustration 15.

Following is the Balance Sheet of Financial Services Ltd. as at 31st March, 2026. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		7,50,000	7,50,000
(*b*) Reserves and Surplus		3,00,000	2,00,000
2. Non-Current Liabilities			
Long-term Borrowings		4,50,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	1,00,000
(*b*) Trade Payables		4,50,000	3,50,000
(*c*) Other Current Liabilities	1	1,50,000	1,00,000
Total		23,00,000	20,00,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		7,50,000	7,00,000
(*b*) Non-current Investments		2,00,000	2,00,000
2. Current Assets			
(*a*) Inventories	2	4,50,000	3,50,000
(*b*) Trade Receivables		5,00,000	4,50,000
(*c*) Cash and Cash Equivalents		2,00,000	2,00,000
(*d*) Other Current Assets	3	2,00,000	1,00,000
Total		23,00,000	20,00,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Other Current Liabilities		
Expenses Payable	1,00,000	1,00,000
Current Maturities of Long-term Debt	50,000	...
	1,50,000	1,00,000
2. Inventories		
Raw Materials	3,00,000	2,25,000
WIP	1,00,000	75,000
Stores and Spares	50,000	50,000
	4,50,000	3,50,000
3. Other Current Assets		
Prepaid Expenses	50,000	25,000
Advances to Staff	1,50,000	75,000
	2,00,000	1,00,000

Solution:

Current Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	$= \frac{₹\ 13,00,000}{₹\ 8,00,000}$	$= \frac{₹\ 10,50,000}{₹\ 5,50,000}$
	= 1.63 : 1	**= 1.91 : 1**

Working Note:

		₹	₹
Current Assets =	Inventories (Excluding Stores and Spares) + Trade Receivables + Cash and Cash Equivalents + Other Current Assets		
2026 =	₹ 4,00,000 + ₹ 5,00,000 + ₹ 2,00,000 + ₹ 2,00,000	13,00,000	
2025 =	₹ 3,00,000 + ₹ 4,50,000 + ₹ 2,00,000 + ₹ 1,00,000		10,50,000
Current Liabilities =	Short-term Borrowings + Trade Payables + Other Current Liabilities		
2026 =	₹ 2,00,000 + ₹ 4,50,000 + ₹ 1,50,000	8,00,000	
2025 =	₹ 1,00,000 + ₹ 3,50,000 + ₹ 1,00,000		5,50,000

Liquid Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Liquid or Quick Assets}}{\text{Current Liabilities}}$	$= \frac{₹\ 8,50,000}{₹\ 8,00,000}$	$= \frac{₹\ 7,25,000}{₹\ 5,50,000}$
	= 1.06 : 1	**= 1.32 : 1**

Working Note:

		₹	₹
Liquid Assets =	Trade Receivables + Cash and Cash Equivalents + Other Current Assets (Advances to Staff)		
2026 =	₹ 5,00,000 + ₹ 2,00,000 + ₹ 1,50,000	8,50,000	
2025 =	₹ 4,50,000 + ₹ 2,00,000 + ₹ 75,000		7,25,000
Current Liabilities =	Short-term Borrowings + Trade Payables + Other Current Liabilities		
2026 =	₹ 2,00,000 + ₹ 4,50,000 + ₹ 1,50,000	8,00,000	
2025 =	₹ 1,00,000 + ₹ 3,50,000 + ₹ 1,00,000		5,50,000

Illustration 16.

Following is the Balance Sheet of Financial Services Ltd. as at 31st March, 2026. You are required to calculate Liquid Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		5,00,000	5,00,000
(*b*) Reserves and Surplus		2,50,000	2,00,000
2. Non-Current Liabilities			
Long-term Borrowings		7,50,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings	1	1,00,000	75,000
(*b*) Trade Payables		2,50,000	2,00,000
Total		18,50,000	14,75,000

II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		6,00,000	5,50,000
(*b*) Non-current Investments		1,00,000	1,00,000
2. Current Assets			
(*a*) Inventories		3,50,000	2,75,000
(*b*) Trade Receivables		4,00,000	2,50,000
(*c*) Cash and Cash Equivalents		2,00,000	2,00,000
(*d*) Other Current Assets	2	2,00,000	1,00,000
Total		18,50,000	14,75,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Short-term Borrowings		
Bank Overdraft	60,000	50,000
Loan Against Fixed Deposit	40,000	25,000
	1,00,000	75,000
2. Other Current Assets		
Prepaid Expenses	50,000	25,000
Advances for Purchases of Goods	1,50,000	75,000
	2,00,000	1,00,000

Solution:

Liquid Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Liquid or Quick Assets}}{\text{Current Liabilities}}$	$= \frac{₹\ 7,50,000}{₹\ 3,50,000}$	$= \frac{₹\ 5,25,000}{₹\ 2,75,000}$
	= 2.14 : 1	**= 1.91 : 1**

Working Note:

	₹	₹
Liquid Assets = Trade Receivables + Cash and Cash Equivalents + Other Current Assets (Advances for Purchases)		
2026 = ₹ 4,00,000 + ₹ 2,00,000 + ₹ 1,50,000	7,50,000	
2025 = ₹ 2,50,000 + ₹ 2,00,000 + ₹ 75,000		5,25,000
Current Liabilities = Short-term Borrowings + Trade Payables		
2026 = ₹ 1,00,000 + ₹ 2,50,000	3,50,000	
2025 = ₹ 75,000 + ₹ 2,00,000		2,75,000

Always Remember: *While calculating Current Ratio and Liquid (Quick) Ratio 'Provision for Doubtful Debts' and 'Provision for Discount on Debtors' are deducted from Trade Receivables.*

Illustration 17.

Following is the Balance Sheet of Computers India Ltd. as at 31st March, 2026. You are required to calculate Liquid Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		10,00,000	7,50,000
(*b*) Reserves and Surplus		5,00,000	2,00,000
2. Non-Current Liabilities			
Long-term Borrowings		15,00,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings	1	2,00,000	1,50,000
(*b*) Trade Payables		3,50,000	1,50,000
(*c*) Short-term Provisions	2	1,50,000	50,000
Total		37,00,000	18,00,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		14,00,000	7,50,000
(*b*) Non-current Investments		5,00,000	1,50,000
2. Current Assets			
(*a*) Inventories	3	7,50,000	4,50,000
(*b*) Trade Receivables	4	7,50,000	2,50,000
(*c*) Cash and Cash Equivalents		3,00,000	2,00,000
Total		37,00,000	18,00,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Short-term Borrowings		
Bank Overdraft	1,50,000	1,00,000
Loan from Directors	50,000	50,000
	2,00,000	1,50,000
2. Short-term Provisions		
Provision for Expenses	50,000	25,000
Provision for Tax	1,00,000	25,000
	1,50,000	50,000
3. Inventories		
Materials	3,25,000	1,50,000
Stock-in-trade	1,75,000	1,00,000
Finished Goods	1,50,000	1,50,000
Loose Tools	1,00,000	50,000
	7,50,000	4,50,000
4. Trade Receivables		
Sundry Debtors	6,00,000	2,25,000
Bills Receivable	1,50,000	25,000
	7,50,000	2,50,000

Solution:

Liquid Ratio $= \dfrac{\text{Liquid or Quick Assets}}{\text{Current Liabilities}}$

31st March, 2026	**31st March, 2025**
$= \dfrac{₹\ 10,50,000}{₹\ 7,00,000}$	$= \dfrac{₹\ 4,50,000}{₹\ 3,50,000}$
= 1.50 : 1	**= 1.29 : 1**

Working Note:

	₹	₹
Liquid Assets = Trade Receivables + Cash and Cash Equivalents		
2026 = ₹ 7,50,000 + ₹ 3,00,000	10,50,000	
2025 = ₹ 2,50,000 + ₹ 2,00,000		4,50,000
Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions		
2026 = ₹ 2,00,000 + ₹ 3,50,000 + ₹ 1,50,000	7,00,000	
2025 = ₹ 1,50,000 + ₹ 1,50,000 + ₹ 50,000		3,50,000

Illustration 18.

Following is the Balance Sheet of Daily Needs Ltd. as at 31st March, 2026. You are required to calculate Current Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		10,00,000	7,50,000
(*b*) Reserves and Surplus		5,00,000	2,00,000
2. Non-Current Liabilities			
Long-term Borrowings		15,00,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings	1	2,00,000	1,50,000
(*b*) Trade Payables		3,50,000	1,50,000
(*c*) Short-term Provisions	2	1,50,000	50,000
Total		37,00,000	18,00,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		14,00,000	7,50,000
(*b*) Non-current Investments		5,00,000	1,50,000
2. Current Assets			
(*a*) Inventories	3	7,50,000	4,50,000
(*b*) Trade Receivables	4	7,50,000	2,50,000
(*c*) Cash and Cash Equivalents		3,00,000	2,00,000
Total		37,00,000	18,00,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Short-term Borrowings		
Bank Overdraft	1,50,000	1,00,000
Loan from Directors	50,000	50,000
	2,00,000	1,50,000
2. Short-term Provisions		
Provision for Expenses	50,000	25,000
Provision for Tax	1,00,000	25,000
	1,50,000	50,000

3. Inventories		
Materials	3,25,000	1,50,000
Stock-in-trade	1,75,000	1,00,000
Finished Goods	1,50,000	1,50,000
Loose Tools	1,00,000	50,000
	7,50,000	4,50,000
4. Trade Receivables		
Sundry Debtors	6,00,000	2,25,000
Bills Receivable	1,50,000	25,000
	7,50,000	2,50,000

Solution:

Current Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	$= \frac{₹\ 17,00,000}{₹\ 7,00,000}$	$= \frac{₹\ 8,50,000}{₹\ 3,50,000}$
	= 2.43 : 1	**= 2.43 : 1**

Working Note:

	₹	₹
Current Assets = Inventories (Excluding Loose Tools) + Trade Receivables + Cash and Cash Equivalents		
2026 = ₹ 6,50,000 + ₹ 7,50,000 + ₹ 3,00,000	17,00,000	
2025 = ₹ 4,00,000 + ₹ 2,50,000 + ₹ 2,00,000		8,50,000
Current Liabilities = Short-term Borrowings + Trade Payables + Short-term Provisions		
2026 = ₹ 2,00,000 + ₹ 3,50,000 + ₹ 1,50,000	7,00,000	
2025 = ₹ 1,50,000 + ₹ 1,50,000 + ₹ 50,000		3,50,000

Illustration 19.

Following is the Balance Sheet of Total Care Ltd. as at 31st March, 2026. You are required to calculate Current Ratio for the two years.

BALANCE SHEET
as at 31st March, 2026

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		5,00,000	5,00,000
(*b*) Reserves and Surplus		2,50,000	2,00,000
2. Non-Current Liabilities			
Long-term Borrowings		7,50,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings	1	1,00,000	75,000
(*b*) Trade Payables	2	2,50,000	2,00,000
Total		18,50,000	14,75,000

II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		6,00,000	5,50,000
(*b*) Non-current Investments		1,00,000	1,00,000
2. Current Assets			
(*a*) Inventories	3	4,50,000	3,75,000
(*b*) Trade Receivables	4	5,00,000	2,50,000
(*c*) Cash and Cash Equivalents		2,00,000	2,00,000
Total		18,50,000	14,75,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Short-term Borrowings		
Bank Overdraft	60,000	50,000
Loan Against Fixed Deposit	40,000	25,000
	1,00,000	75,000
2. Trade Payable		
Sundry Creditors	2,00,000	1,65,000
Bills Payable	50,000	35,000
	2,50,000	2,00,000
3. Inventories		
Materials	2,25,000	1,75,000
Finished Goods	1,25,000	1,75,000
Loose Tools	1,00,000	25,000
	4,50,000	3,75,000
4. Trade Receivables		
Sundry Debtors	4,00,000	2,25,000
Bills Receivable	1,00,000	25,000
	5,00,000	2,50,000

Solution:

Current Ratio	**31st March, 2026**	**31st March, 2025**
$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$	$= \frac{₹\ 10,50,000}{₹\ 3,50,000}$	$= \frac{₹\ 8,00,000}{₹\ 2,75,000}$
	= 3 : 1	**= 2.91 : 1**

Working Note:

Current Assets = Inventories (Excluding Loose Tools) + Trade Receivables + Cash and Cash Equivalents

2026 = ₹ 3,50,000 + ₹ 5,00,000 + ₹ 2,00,000 = ₹ 10,50,000

2025 = ₹ 3,50,000 + ₹ 2,50,000 + ₹ 2,00,000 = ₹ 8,00,000

Current Liabilities = Short-term Borrowings + Trade Payables

2026 = ₹ 1,00,000 + ₹ 2,50,000 = ₹ 3,50,000

2025 = ₹ 75,000 + ₹ 2,00,000 = ₹ 2,75,000.

Illustration 20.

Current Assets of a company are ₹ 17,00,000. Its Current Ratio is 2.5 and Liquid Ratio is 0.95. Calculate Current Liabilities and Inventory.

Solution:

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

$$2.5 = \frac{₹\ 17,00,000}{\text{Current Liabilities}}$$

Current Liabilities = ₹ **6,80,000**

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

$$0.95 = \frac{\text{Quick Assets}}{₹\ 6,80,000}$$

Quick Assets = ₹ 6,46,000

Inventory = Current Assets – Quick Assets

= ₹ 17,00,000 – ₹ 6,46,000 = ₹ **10,54,000**

Thus, Current Liabilities = ₹ 6,80,000 and Inventory = ₹ 10,54,000.

Illustration 21.

Following is the Balance Sheet of *X* Ltd. as at 31st March, 2026:

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		20,00,000
(*b*) Reserves and Surplus	1	9,00,000
2. Non-Current Liabilities		
Long-term Borrowings (10% Loan)		10,00,000
3. Current Liabilities		15,00,000
Total		54,00,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
(*i*) Property, Plant and Equipment		25,00,000
(*ii*) Intangible		4,00,000
2. Current Assets		
(*a*) Inventories		10,00,000
(*b*) Trade Receivables		10,00,000
(*c*) Cash and Cash Equivalents		5,00,000
Total		54,00,000

Note to Accounts

Particulars	₹
1. Reserves and Surplus	
(*a*) General Reserve	3,00,000
(*b*) Surplus, *i.e.*, Balance in Statement of Profit & Loss	6,00,000
	9,00,000

Surplus, *i.e.*, Balance in Statement of Profit & Loss includes profit of ₹ 5,00,000 for the current year.

Compute Return on Capital Employed.

Solution: Return on Capital Employed = $\frac{\text{Profit before Interest}}{\text{Capital Employed}} \times 100$

$= \frac{₹\ 6,00,000\ (WN\ 1)}{₹\ 39,00,000\ (WN\ 2)} \times 100 = \mathbf{15.38\%}.$

Working Notes:

		₹
1. *Profit before Interest:*	Profit	5,00,000
	Add: Interest (10% of ₹ 10,00,000)	1,00,000
	Net Profit before Interest	6,00,000
2. *Capital Employed:*	Property, Plant and Equipment + Intangible Assets	29,00,000
	Working Capital, *i.e.,* Current Assets – Current Liabilities (₹ 25,00,000 – ₹ 15,00,000)	10,00,000
	Capital Employed (*Assets Side Approach*)	39,00,000
	Or	
	Share Capital	20,00,000
	Reserves and Surplus	9,00,000
	Long-term Borrowings	10,00,000
	Capital Employed (*Liabilities Side Approach*)	39,00,000

Always Remember: *Capital Employed can be computed from the assets side as well as the liabilities side of the Balance Sheet. Result in both the workings will be same.*

Illustration 22.

Current Assets of a company are ₹ 9,00,000. Its Current Ratio is 3 and Liquid Ratio is 1.2. Calculate Current Liabilities, Liquid Assets and Inventory. (*Foreign 2005*)

Solution:

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

$3 = \frac{₹\ 9,00,000}{\text{Current Liabilities}}$

$\text{Current Liabilities} = \frac{₹\ 9,00,000}{3} = ₹\ \mathbf{3,00,000}.$

(*ii*) $\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$1.2 = \frac{\text{Liquid Assets}}{₹\ 3,00,000}$

Liquid Assets = ₹ **3,60,000**.

(*iii*) Inventory = Current Assets – Liquid Assets

= ₹ 9,00,000 – ₹ 3,60,000 = ₹ **5,40,000**.

Illustration 23.

Calculate Debt to Equity Ratio from the following data:

(*i*) Total Assets ₹ 1,25,000 (*ii*) Total Debts ₹ 1,00,000 (*iii*) Short-term Loans ₹ 50,000.

Solution: *Calculation of Debt to Equity Ratio:*

$\text{Debt to Equity Ratio} = \frac{\text{Debt/Long-term Debt}}{\text{Equity/Shareholders' Funds}} = \frac{₹\ 50,000}{₹\ 25,000} = \mathbf{2 : 1}.$

Working Notes:

1. Long-term Debt = Total Debts – Current Liabilities (Short-term Loans)
   = ₹ 1,00,000 – ₹ 50,000 = ₹ 50,000.
2. Shareholders' Funds = Total Assets – Total Debts = ₹ 1,25,000 – ₹ 1,00,000 = ₹ 25,000.

Illustration 24.

From the following information compute:

(*i*) Debt to Equity Ratio; (*ii*) Total Assets to Debt Ratio; (*iii*) Proprietary Ratio.

Particulars	₹
Long-term Borrowings	5,00,000
Long-term Provisions	2,50,000
Current Liabilities	1,25,000
Non-Current Assets	9,00,000
Current Assets	2,25,000

Solution:

(*i*) $$\text{Debt to Equity Ratio} = \frac{\text{Debt/Long-term Debt}}{\text{Shareholders' Funds}} = \frac{₹\,7,50,000}{₹\,2,50,000} = \mathbf{3 : 1}.$$

(*ii*) $$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{₹\,11,25,000}{₹\,7,50,000} = \mathbf{1.5 : 1}.$$

(*iii*) $$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}} = \frac{₹\,2,50,000}{₹\,11,25,000} = 0.22 : 1.$$

Working Notes:

1. Debt = Long-term Borrowings + Long-term Provisions = ₹ 5,00,000 + ₹ 2,50,000 = ₹ 7,50,000.
2. Shareholders' Funds = Total Assets – Non-Current Liabilities – Current Liabilities
   = (Non-Current Assets + Current Assets) – (Long-term Borrowings + Long-term Provisions) – Current Liabilities
   = (₹ 9,00,000 + ₹ 2,25,000) – (₹ 5,00,000 + ₹ 2,50,000) – ₹ 1,25,000
   = ₹ 11,25,000 – ₹ 7,50,000 – ₹ 1,25,000 = ₹ 2,50,000.
3. Total Assets = Non-Current Assets + Current Assets = ₹ 9,00,000 + ₹ 2,25,000 = ₹ 11,25,000.

Illustration 25.

The data given below is of SKC Ltd. for 3 years. The company has a loan of ₹ 360 (lakhs) repayable in next 5 years. You are required to calculate Interest Coverage Ratio for each year.

(₹ in Lakhs)

Particulars	Year-1	Year-2	Year-3
Profit after Tax (₹)	480	575	635
Tax (₹)	125	203	254
Interest on Loan (₹)	162	125	87

Solution: $$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$$

Profit before Interest and Tax (₹)	767	903	976
Interest Coverage Ratio	= 767/162	= 903/125	= 976/87
	= 4.73 Times	= 7.22 Times	= 11.22 Times

Note: Profit before Interest and Tax = Profit after Tax + Tax + Interest on Loan.

Illustration 26.

From the following Statement of Profit & Loss of Business Machines Ltd., calculate Inventory Turnover Ratio:

STATEMENT OF PROFIT & LOSS

for the year ended 31st March, 2026

Particulars	Note No.	₹
I. Revenue from Operations		10,00,000
II. Other Income		50,000
III. Total Revenue (I + II)		10,50,000
IV. *Expenses:*		
Purchases of Stock-in-Trade		5,00,000
Change in Inventory of Stock-in-Trade	1	25,000
Employees Benefit Expenses		1,20,000
Depreciation and Amortisation Expenses		5,000
Other Expenses		20,000
Total Expenses		6,70,000
V. Profit before Tax (III – IV)		3,80,000

Note to Accounts

Particulars	₹
1. Change in Inventory of Stock-in-Trade	
Opening Inventory	1,00,000
Less: Closing Inventory	75,000
	25,000

Solution: Inventory Turnover Ratio

$$= \frac{\text{Cost of Revenue from Operations (Cost of Goods Sold)}}{\text{Average Inventory}} = \frac{₹\ 5,25,000}{₹\ 87,500} = \mathbf{6\ Times}.$$

Cost of Revenue from Operations (Cost of Goods Sold)

= Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade

= ₹ 5,00,000 + ₹ 25,000 = ₹ 5,25,000.

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2} = \frac{₹\ 1,00,000 + ₹\ 75,000}{2}$$

= ₹ 87,500.

Note: Direct Expenses are not given, hence they are presumed to be nil.

Illustration 27.

A trader carries an Average Inventory of ₹ 75,000. His Inventory Turnover Ratio is 12 times. Find out his profit, if he sells at a profit of 20% on sales. (*Foreign 2004*)

Solution:

Profit = Sales – Cost of Revenue from Operations (Cost of Goods Sold)

= ₹ 11,25,000 – ₹ 9,00,000 = ₹ **2,25,000**.

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

$$12 = \frac{\text{Cost of Revenue from Operations (Cost of Goods Sold)}}{₹\ 75{,}000}$$

Cost of Revenue from Operations (Cost of Goods Sold)

= ₹ 75,000 × 12 = ₹ 9,00,000.

Let Selling Price be ₹ 100,

Profit = ₹ 20

Cost = ₹ 100 – ₹ 20 = ₹ 80

If Cost is ₹ 80, then Sales = ₹ 100.

If Cost is ₹ 9,00,000, then Sales = $\frac{₹\ 100}{₹\ 80} \times ₹\ 9{,}00{,}000$ = ₹ 11,25,000.

Illustration 28.

From the following data, calculate Gross Profit Ratio, Current Ratio, Quick Ratio and Debt to Equity Ratio:

Revenue from Operations ₹ 3,00,000; Cost of Revenue from Operations (Cost of Goods Sold) ₹ 2,00,000; Net Profit ₹ 30,000; Current Assets ₹ 60,000; Inventory ₹ 10,000; Current Liabilities ₹ 20,000; Share Capital ₹ 50,000 and Debentures ₹ 25,000.

Solution:

(*i*) $\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations (Cost of Goods Sold)

= ₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000.

$$\text{Gross Profit Ratio} = \frac{₹\ 1{,}00{,}000}{₹\ 3{,}00{,}000} \times 100 = \mathbf{33.33\%}.$$

(*ii*) $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\ 60{,}000}{₹\ 20{,}000} = \mathbf{3 : 1}.$

(*iii*) $\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹\ 60{,}000 - ₹\ 10{,}000\ \text{(Inventory)}}{₹\ 20{,}000} = \mathbf{2.5 : 1}.$

(*iv*) $\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}} = \frac{\text{Debentures}}{\text{Share Capital + Profit}}$

$$= \frac{₹\ 25{,}000}{₹\ 50{,}000 + ₹\ 30{,}000} = \frac{₹\ 25{,}000}{₹\ 80{,}000}$$

$$= \mathbf{0.31 : 1}.$$

Illustration 29.

Grow More Ltd.

COMPARATIVE BALANCE SHEET *as at 31st March, 2025 and 2026*

Particulars	Note No.	31st March, 2025 ₹	31st March, 2026 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		2,00,000	3,00,000	1,00,000	50.00
(*b*) Reserves and Surplus		2,00,000	2,00,000	...	...
2. Non-Current Liabilities					
Long-term Borrowings		40,000	1,60,000	1,20,000	300.00
3. Current Liabilities					
Trade Payables		60,000	1,00,000	40,000	66.67
Total		5,00,000	7,60,000	2,60,000	52.00
II. ASSETS					
1. Non-Current Assets					
(*a*) Property, Plant and Equipment		3,60,000	5,60,000	2,00,000	55.55
(*b*) Non-Current Investments		40,000	40,000	...	...
2. Current Assets					
(*a*) Trade Receivables		80,000	1,20,000	40,000	50.00
(*b*) Cash and Cash Equivalents		20,000	40,000	20,000	100.00
Total		5,00,000	7,60,000	2,60,000	52.00

Additional Information:

1. Trade Receivables as at 31st March, 2024 were ₹ 60,000.
2. Revenue from Operations (Net Sales) for the year ended 31st March, 2025 and 31st March, 2026 is ₹ 20,00,000 and ₹ 30,00,000 respectively. Net Credit Revenue from Operations being 70% of Revenue from Operations in both the years.

From the above Comparative Balance Sheets and additional information, compute Trade Receivables Turnover Ratio.

Solution:

Trade Receivables Turnover Ratio	**31st March, 2025**	**31st March, 2026**
$\frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$	$= \frac{₹\,14,00,000}{\frac{₹\,60,000 + ₹\,80,000}{2}}$	$= \frac{₹\,21,00,000}{\frac{₹\,80,000 + ₹\,1,20,000}{2}}$
	= 20 Times	= 21 Times
Credit Revenue from Operations	= 70% of ₹ 20,00,000	= 70% of ₹ 30,00,000
	= ₹ 14,00,000	= ₹ 21,00,000

Illustration 30.

Current Ratio of a company is 2.5 : 1. State, giving reasons, which of the following would improve, decline or not change the ratio:

(*i*) Repayment of long-term loans;

(*ii*) Goods purchased on credit of 3 months;

(*iii*) Purchase of computer on credit of 2 months;

(*iv*) Purchase of building by issuing debentures;

(*v*) Revenue from Operations, *i.e.*, Sale of goods for ₹ 20,000 on credit of 1 month (Cost of Goods Sold ₹ 15,000);

(*vi*) Cash collected from debtors;

(*vii*) Cash paid to creditors;

(*viii*) Payment of outstanding liabilities;

(*ix*) Sale of goods for cash ₹ 20,000 (Cost ₹ 24,000);

(*x*) Issue of shares for cash;

(*xi*) Bills receivable drawn on debtors for 2 months; and

(*xii*) Bills receivable collected at maturity.

Solution: **Statement Showing the Effect of Different Items on Current Ratio**

Transactions	*Effect on Current Ratio*	*Reason*
(*i*)	Improve	Repayment of long-term loans will **reduce** Cash and Cash Equivalents, *i.e.*, current assets and, current liabilities with the amount paid. Therefore, Current Ratio will improve.
(*ii*)	Decline	Goods purchased on credit will **increase** inventory, *i.e.*, current assets and also current liabilities by the same amount. In effect, Current Ratio will decline.
(*iii*)	Decline	Purchase of computer on credit which will be paid within 2 months will increase current liabilities. However, current assets **will not change**. Therefore, Current Ratio will decline.
(*iv*)	No change	Purchase of building by issuing debentures **will not affect** current assets or current liabilities. Therefore, Current Ratio will not change.
(*v*)	Improve	Credit Sale of goods at a profit will **increase** current assets. However, current liabilities will remain same. Therefore, Current Ratio will improve.
(*vi*)	No change	Cash collected from debtors will **not change** current assets because one current asset will be replaced by another. Besides, current liabilities will remain same. Therefore, Current Ratio will not change.
(*vii*)	Improve	Cash paid to creditors will **reduce** current assets and current liabilities by the same amount. Therefore, Current Ratio will improve.
(*viii*)	Improve	Payment of outstanding liabilities will **reduce** current assets and current liabilities. Therefore, Current Ratio will improve.
(*ix*)	Decline	Sale of goods at a loss will **reduce** current assets but current liabilities will remain same. Therefore, Current Ratio will decline.
(*x*)	Improve	Issue of shares for cash will **increase** current assets but current liabilities will remain same. Therefore, Current Ratio will improve.
(*xi*)	No change	Bills receivable drawn on debtors will **not change** current assets because one current asset will be replaced by another. Therefore, it will not change the Current Ratio.
(*xii*)	No change	Bills receivable collected at maturity will **not change** current assets because one current asset will be replaced by another. Therefore, Current Ratio will not change.

Illustration 31.

Compute Total Assets to Debt Ratio from the following information:

	₹		₹
Total Assets	7,50,000	Bills Payable	30,000
Total Debts	8,00,000	Bank Overdraft	37,500
Creditors	75,000	Outstanding Expenses	17,500

Solution:

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{₹\ 7,50,000}{₹\ 6,40,000} = \mathbf{1.17 : 1}.$$

Debt = Total Debts – Creditors – Bills Payable – Bank Overdraft – Outstanding Expenses
= ₹ 8,00,000 – ₹ 75,000 – ₹ 30,000 – ₹ 37,500 – ₹ 17,500 = ₹ 6,40,000.

Note: Creditors, Bills Payable, Bank Overdraft and Outstanding Expenses are Current Liabilities. Hence, these are deducted.

Illustration 32.

From the following information, calculate Total Assets to Debt Ratio:

	₹		₹
Total Debt	4,50,000	Short-term Bank Loan	50,000
Sundry Creditors	75,000	Total Assets	5,50,000
Expenses Payable	25,000	Surplus, *i.e.*, Balance in Statement of	
Bills Payable	25,000	Profit & Loss (Debit)	20,000

Solution:

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{₹\ 5,50,000}{₹\ 2,75,000} = \mathbf{2 : 1}.$$

Note: Debt = Total Debt – Short-term Bank Loan – Trade Payables (Sundry Creditors + Bills Payable) – Other Current Liabilities (Expenses Payable).
= ₹ 4,50,000 – ₹ 50,000 – (₹ 75,000 + ₹ 25,000) – ₹ 25,000 = ₹ 2,75,000.

Illustration 33.

From the following Balance Sheet of *Y* Ltd. for the year ended 31st March, 2026, calculate Total Assets to Debt Ratio:

Particulars	₹
I. EQUITY AND LIABILITIES	
1. Shareholders' Funds	
Share Capital	20,00,000
2. Non-Current Liabilities	
Long-term Borrowings	10,00,000
3. Current Liabilities	
Trade Payables	5,00,000
Total	35,00,000

II. ASSETS	
1. Non-Current Assets	
Property, Plant and Equipment and Intangible Assets— Property, Plant and Equipment	22,00,000
2. Current Assets	
(*a*) Inventories	8,00,000
(*b*) Trade Receivables	3,00,000
(*c*) Cash and Cash Equivalents	1,50,000
(*d*) Short-term Loans and Advances	50,000
Total	35,00,000

Solution: Total Assets to Debt Ratio $= \frac{\text{Total Assets}}{\text{Debt}} = \frac{₹\ 35,00,000}{₹\ 10,00,000} = \mathbf{3.5 : 1}$.

Illustration 34.

From the following Balance Sheet of Times Ltd. as at 31st March, 2026, compute Return on Capital Employed or Return on Investment:

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		13,00,000
(*b*) Reserves and Surplus		(2,50,000)
2. Non-Current Liabilities		
Long-term Borrowings		5,00,000
3. Current Liabilities		
(*a*) Trade Payables		1,00,000
(*b*) Other Current Liabilities		70,000
(*c*) Short-term Provisions		30,000
Total		17,50,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Property, Plant and Equipment and Intangible Assets:*		
—Property, Plant and Equipment		11,20,000
(*b*) Non-current Investments (Trade)		2,00,000
2. Current Assets		
(*a*) Inventories		1,70,000
(*b*) Trade Receivables		1,40,000
(*c*) Cash and Cash Equivalents		1,20,000
Total		17,50,000

Note: Net Profit for the year before interest and tax is ₹ 4,65,000.

Solution:

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

$$= \frac{₹\ 4,65,000}{₹\ 15,50,000} \times 100 = \mathbf{30\%}.$$

Capital Employed:

1. Liabilities Approach = Share Capital + Reserves and Surplus + Long-term Borrowings
= ₹ 13,00,000 – ₹ 2,50,000 + ₹ 5,00,000 = ₹ 15,50,000.

2. Assets Approach = Property, Plant and Equipment + Non-current Investments (Trade) + Working Capital (*i.e.*, Current Assets – Current Liabilities)
= ₹ 11,20,000 + ₹ 2,00,000 + (₹ 1,70,000 + ₹ 1,40,000 + ₹ 1,20,000 – ₹ 1,00,000 – ₹ 70,000 – ₹ 30,000) = ₹ 15,50,000.

Illustration 35.

Matrix Ltd.

COMMON-SIZE STATEMENT OF PROFIT & LOSS *for the years ended 31st March, 2025 and 2026*

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31st March, 2025 (₹)	31st March, 2026 (₹)	31st March, 2025 (₹)	31st March, 2026 (₹)
I. Revenue from Operations		16,00,000	20,00,000	100.00	100.00
II. Employees Benefit Expenses		8,00,000	10,00,000	50.00	50.00
Other Expenses		2,00,000	1,00,000	12.50	5.00
III. Total Expenses		10,00,000	11,00,000	62.50	55.00
IV. **Profit before Tax (I – III)**		6,00,000	9,00,000	37.50	45.00

From the above, compute Operating Ratio.

Solution:

Operating Ratio = $\frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$

31st March, 2025 = $\frac{₹\,10,00,000}{₹\,16,00,000} \times 100$ = 62.50%

31st March, 2026 = $\frac{₹\,11,00,000}{₹\,20,00,000} \times 100$ = 55%

Illustration 36.

From the following Balance Sheet of Moon Ltd. as at 31st March, 2026, prepare a Common-size Balance Sheet and compute Proprietary Ratio:

Particulars	Note No.	31st March, 2026 (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		60,00,000
(*b*) Reserves and Surplus		8,00,000
2. Non-Current Liabilities		
Long-term Borrowings		20,00,000
3. Current Liabilities		
Short-term Borrowings		12,00,000
Total		1,00,00,000

II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
(*i*) Property, Plant and Equipment		60,00,000
(*ii*) Intangible Assets		12,00,000
2. Current Assets		
(*a*) Inventories		20,00,000
(*b*) Cash and Cash Equivalents		8,00,000
Total		1,00,00,000

Solution:

COMMON-SIZE BALANCE SHEET

as at 31st March, 2026

Particulars	Note No.	Absolute Amount (₹)	% of Balance Sheet Total
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		60,00,000	60
(*b*) Reserves and Surplus		8,00,000	8
2. Non-Current Liabilities			
Long-term Borrowings		20,00,000	20
3. Current Liabilities			
Short-term Borrowings		12,00,000	12
Total		1,00,00,000	100
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
(*i*) Property, Plant and Equipment		60,00,000	60
(*ii*) Intangible Assets		12,00,000	12
2. Current Assets			
(*a*) Inventories		20,00,000	20
(*b*) Cash and Cash Equivalents		8,00,000	8
Total		1,00,00,000	100

$$\textbf{Proprietary Ratio} = \frac{\text{Shareholders' Funds}}{\text{Total Assets}}$$

$$= \frac{₹\,68,00,000}{₹\,1,00,00,000} = 0.68 : 1.$$

Shareholders' Funds = Share Capital + Reserves and Surplus

= ₹ 60,00,000 + ₹ 8,00,000 = ₹ 68,00,000.

UNSOLVED QUESTIONS

1. Current Assets and Current Liabilities of Times Ltd. are as follows:

Current Assets	₹	Current Liabilities	₹
Cash and Cash Equivalents	50,000	Creditors	3,00,000
Debtors	3,10,000	Bills Payables	1,20,000
Bills Receivable	30,000	Short-term Borrowings	1,00,000
Marketable Securities	1,50,000		
Inventories	5,00,000		
	10,40,000		5,20,000

Calculate Current Ratio and Liquid Ratio. [**Ans.:** *Current Ratio = 2 : 1; Liquid Ratio = 1.04 : 1.*]

2. From the following Balance Sheet of Star Ltd., calculate Current Ratio:

BALANCE SHEET *as at 31st March, 2026*

Particulars	₹
I. EQUITY AND LIABILITIES	
1. Shareholders' Funds	
(a) Share Capital	63,000
(b) Reserves and Surplus	12,000
2. Current Liabilities	
(a) Short-term Borrowings	6,000
(b) Trade Payables	18,000
Total	99,000
II. ASSETS	
1. Non-Current Assets	
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment	51,000
2. Current Assets	
(a) Inventories	18,600
(b) Trade Receivables	9,600
(c) Cash and Cash Equivalents	19,800
Total	99,000

[**Ans.:** *Current Ratio = 2 : 1.*]

3. Following is the Balance Sheet of Bright Co. Ltd. as at 31st March, 2026:

Particulars		₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital		7,00,000
(b) *Reserves and Surplus:*		
(i) General Reserve	80,000	
(ii) Surplus, *i.e.*, Balance in Statement of Profit & Loss	20,000	1,00,000
2. Non-Current Liabilities		
Long-term Borrowings (12% Debentures)		2,00,000
3. Current Liabilities		
(a) Trade Payables		50,000
(b) Other Current Liabilities		50,000
Total		11,00,000

II. ASSETS	
1. Non-Current Assets	
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment	6,00,000
2. Current Assets	
(a) Inventories	1,50,000
(b) Trade Receivables	2,50,000
(c) Cash and Cash Equivalents	1,00,000
Total	11,00,000

Calculate Total Assets to Debt Ratio.

[**Ans.:** *Total Assets to Debt Ratio = 5.5 : 1.*]

4. Following is the Balance Sheet of *XYZ* Ltd. as at 31st March, 2026:

Particulars		₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital		2,00,000
(b) *Reserves and Surplus:*		
(i) General Reserve	55,000	
(ii) Surplus, *i.e.*, Balance in Statement of Profit & Loss	45,000	1,00,000
2. Non-Current Liabilities		
Long-term Borrowings		1,00,000
3. Current Liabilities		
(a) Trade Payables		1,70,000
(b) *Short-term Provisions:* Provision for Tax		10,000
Total		5,80,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment		3,80,000
2. Current Assets		
(a) Trade Receivables		1,70,000
(b) Cash and Cash Equivalents		30,000
Total		5,80,000

Calculate Return on Investment.

[**Ans.:** *Return on Investment = 13.75%.*]

5. Following is the Balance Sheet of *ABC* Limited as at 31st March, 2026:

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		4,80,000
(*b*) Reserves and Surplus		1,20,000
2. Non-Current Liabilities		
Long-term Borrowings		3,00,000
3. Current Liabilities		
(*a*) Short-term Borrowings		68,000
(*b*) Trade Payables (Creditors)		4,00,000
(*c*) Short-term Provisions		12,000
Total		13,80,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment		9,00,000
2. Current Assets		
(*a*) Inventories (Stock)		2,40,000
(*b*) Trade Receivables (Debtors)		1,80,000
(*c*) Cash and Cash Equivalents		60,000
Total		13,80,000

Notes:

1. Long-term Borrowings are 3,000, 10% Debentures of ₹ 100 each.
2. Short-term Provisions is towards Provision for Tax.

Calculate the following Ratios:

(i) Current Ratio, and (ii) Liquid Ratio.

What conclusions do you draw about the Company on the basis of these Ratios?

[**Ans.:** *Current Ratio = 1 : 1; Liquid Ratio = 0.50 : 1.*]

6. From the following Balance Sheet of Ramji Ltd., calculate Current Ratio:

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		2,60,000
(*b*) Reserves and Surplus		90,000
2. Current Liabilities		
(*a*) Short-term Borrowings (Bank Overdraft)		20,000
(*b*) Trade Payables		60,000
Total		4,30,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment		2,60,000
2. Current Assets		
(*a*) Inventory (Including Loose Tools ₹ 10,000)		72,000
(*b*) Trade Receivables		32,000
(*c*) Cash and Cash Equivalents		56,000
(*d*) Other Current Assets (Accrued Income)		10,000
Total		4,30,000

[**Ans.:** *Current Ratio = 2 : 1.*]

7. From the following Balance Sheet of *M* and *S* Ltd., compute Debt to Equity Ratio:

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		7,50,000
(*b*) Reserves and Surplus		(1,15,000)
2. Non-Current Liabilities		
(*a*) Long-term Borrowings		7,50,000
(*b*) Long-term Provisions		1,42,500
3. Current Liabilities		
(*a*) Trade Payables		57,500
(*b*) Other Current Liabilities		40,000
Total		16,25,000
II. ASSETS		
1. Non-Current Assets		
(*a*) Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment		6,15,000
(*b*) Non-current Investments		1,00,000
(*c*) Other Non-current Assets	1	30,000
2. Current Assets		
(*a*) Inventories		3,75,000
(*b*) Trade Receivables		1,50,000
(*c*) Cash and Cash Equivalents		2,60,000
(*d*) Other Current Assets	2	95,000
Total		16,25,000

Notes to Accounts

Particulars	₹
1. Other Non-Current Assets	
Unamortised Loss on Issue of Debentures	30,000
2. Other Current Assets	
Unamortised Share Issue Expenses	75,000
Interest Receivables	10,000
Prepaid Expenses	10,000
	95,000

[**Ans.:** *Debt to Equity Ratio = 1.68 : 1.*]

8. From the following Balance Sheet, calculate (i) Proprietary Ratio; (ii) Debt to Equity Ratio; and (iii) Total Assets to Debt Ratio:

BALANCE SHEET OF *A* LTD. *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		1,00,000
(*b*) *Reserves and Surplus:*		
General Reserve		10,000
2. Non-Current Liabilities		
Long-term Borrowings		60,000
3. Current Liabilities		
(*a*) Trade Payables		32,000
(*b*) Short-term Provisions		15,000
Total		2,17,000

II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
(*i*) Property, Plant and Equipment		95,000
(*ii*) Intangible Assets		57,000
2. Current Assets		
(*a*) Trade Receivables		25,000
(*b*) Cash and Cash Equivalents		40,000
Total		2,17,000

[**Ans.:** (i) *Proprietary Ratio = 0.51 : 1;* (ii) *Debt to Equity Ratio = 0.55 : 1;* (iii) *Total Assets to Debt Ratio = 3.62 : 1.*]

9. From the following Statement of Profit & Loss for the year ended 31st March, 2026 of Matrix Ltd., calculate Inventory (Stock) Turnover Ratio:

STATEMENT OF PROFIT & LOSS
for the year ended 31st March, 2026

Particulars	Note No.	₹
I. Revenue from Operations (Net Sales)		25,00,000
II. Other Income		25,000
III. Total Revenue (I + II)		25,25,000
IV. *Expenses:*		
(a) Cost of Materials Consumed	1	10,00,000
(b) Changes in Inventories of Finished Goods and WIP	2	1,25,000
(c) Employees Benefit Expenses		3,00,000
(d) Other Expenses		75,000
Total Expenses		15,00,000
V. Profit before Tax (III – IV)		10,25,000

Notes to Accounts

Particulars		₹
1. Cost of Materials Consumed		
Opening Inventory		1,50,000
Add: Purchases		9,50,000
		11,00,000
Less: Closing Inventory		1,00,000
		10,00,000
2. Changes in Inventories of Finished Goods and WIP		
Work-in-Progress		
Opening Inventory		75,000
Less: Closing Inventory		50,000
	A	25,000
Finished Goods		
Opening Inventory		1,75,000
Less: Closing Inventory		75,000
	B	1,00,000
Total (A + B)		1,25,000

[**Ans.:** *Inventory Turnover Ratio = 3.6 Times.*]

[**Hint:** Average Inventory = $\frac{\text{Opening Inventory of Materials, WIP and Finished Goods} + \text{Closing Inventory of Materials, WIP and Finished Goods}}{2}$]

10. From the following Balance Sheet of *Z* Ltd., Calculate:

(i) Debt to Equity Ratio (ii) Total Assets to Debt Ratio

(iii) Proprietary Ratio (iv) Interest Coverage Ratio.

Particulars		₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) *Share Capital:*		
(*i*) Equity Share Capital		8,00,000
(*ii*) 10% Preference Share Capital		2,08,000
(*b*) *Reserves and Surplus:*		
(*i*) General Reserve	84,000	
(*ii*) Surplus, *i.e.*, Balance in Statement of Profit & Loss	84,000	1,68,000
2. Non-Current Liabilities		
12% Mortgage Loan		3,60,000
3. Current Liabilities		
(*a*) Short-term Loan		30,000
(*b*) Trade Payables		1,71,600
Total		17,37,600
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets:		
—Property, Plant and Equipment:		
(*i*) Land and Building	4,80,000	
(*ii*) Furniture	3,60,000	
(*iii*) Machinery	2,52,000	10,92,000
2. Current Assets		
(*a*) Inventory (Stock)	3,00,000	
(*b*) *Trade Receivables:*		
(*i*) Debtors	1,05,600	
(*ii*) Bills Receivables	2,40,000	6,45,600
Total		17,37,600

Additional Information:

Net Profit after Interest and Tax = ₹ 3,00,000. Rate of Income Tax = 40%.

[**Ans.:** (i) *Debt to Equity Ratio = 0.31 : 1;* (ii) *Total Assets to Debt Ratio = 4.83 : 1;* (iii) *Proprietary Ratio = 0.68 : 1;* (iv) *Interest Coverage Ratio = 12.57 Times.*]

11. Following is the Statement of Profit & Loss of Sham Ltd. for the year ended 31st March, 2026 and the Balance Sheet of the company as at that date:

STATEMENT OF PROFIT & LOSS

for the year ended 31st March, 2026

Particulars			₹
Revenue from Operations (Net Sales)			2,00,000
Expenses:			
Purchases of Stock-in-Trade		1,00,000	
Changes in Inventories (Opening Stock – Closing Stock) (₹ 25,000 – ₹ 30,000)		(5,000)	
Employees Benefit Expenses (Salaries)		17,000	
Other Expenses: Direct Expenses	8,000		
Loss on Sale of Furniture	10,000	18,000	1,30,000
Net Profit			70,000

BALANCE SHEET

as at 31st March, 2026

Particulars	₹
I. EQUITY AND LIABILITIES	
1. Shareholders' Funds	
(*a*) Share Capital	1,00,000
(*b*) Reserves and Surplus	70,000
2. Current Liabilities	
(*a*) Trade Payables	95,000
(*b*) Other Current Liabilities	35,000
Total	3,00,000
II. ASSETS	
1. Non-Current Assets	
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment	2,00,000
2. Current Assets	
(*a*) Inventories	30,000
(*b*) Trade Receivables	50,000
(*c*) Cash and Cash Equivalents	20,000
Total	3,00,000

Calculate following ratios:

(i) Quick Ratio; (ii) Inventory Turnover Ratio; and (iii) Return on Investment (ROI). *(OD 1997, Modified)*

[**Ans.:** (i) *Quick Ratio = 0.54 : 1;* (ii) *Inventory Turnover Ratio = 3.74 Times;* (iii) *ROI = 47.06%.*]

[**Hint:** For ROI, Net Profit = ₹ 70,000 + ₹ 10,000 (Loss on Sale of Furniture; being Non-operating) = ₹ 80,000.]

12. From the following information, calculate **any three** of the following ratios:

(i) Operating Ratio; (ii) Current Ratio; (iii) Inventory or Stock Turnover Ratio; and (iv) Debt to Equity Ratio.

Particulars	₹
Equity Share Capital	5,00,000
9% Preference Share Capital	4,00,000
12% Debentures	2,40,000
General Reserve	40,000
Revenue from Operations (Net Sales)	8,00,000
Opening Inventory	48,000
Purchases	5,00,000
Wages	30,000
Closing Inventory	52,000
Selling and Distribution Expenses	6,000
Other Current Assets	2,00,000
Current Liabilities	1,50,000

(Foreign 2000, 2003)

[**Ans.:** (i) *Operating Ratio = 66.5%;* (ii) *Current Ratio = 1.68 : 1;* (iii) *Inventory or Stock Turnover Ratio = 10.52 Times; and* (iv) *Debt to Equity Ratio = 0.26 : 1.*]

13. Following is the Statement of Profit & Loss of Rajasthan Product Limited for the year ended 31st March, 2026 and Balance Sheet as at that date:

STATEMENT OF PROFIT & LOSS *for the year ended 31st March, 2026*

Particulars	Note No.	₹
I. Revenue from Operations (Sales)		10,00,000
II. Other Income		50,000
III. **Total Revenue**		10,50,000
IV. *Expenses:*		
Cost of Materials Consumed	1	2,00,000
Employees Benefit Expenses	2	2,00,000
Finance Costs		10,000
Other Expenses	3	2,55,000
Total Expenses		6,65,000
V. Profit for the Period (III – IV)		3,85,000

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		2,00,000
(*b*) Reserves and Surplus		1,00,000
2. Non-Current Liabilities		
Long-term Borrowings		2,00,000
3. Current Liabilities		
Trade Payables		1,50,000
Total		6,50,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment		2,50,000
2. Current Assets		
(*a*) Inventories		2,50,000
(*b*) Trade Receivables		1,00,000
(*c*) Cash and Cash Equivalents		50,000
Total		6,50,000

Notes to Accounts

Particulars	₹
1. Cost of Materials Consumed:	
Opening Stock	1,50,000
Add: Purchases	3,00,000
	4,50,000
Less: Closing Stock	2,50,000
	2,00,000
2. Employees Benefit Expenses:	
Wages	2,00,000
3. Other Expenses:	
(*a*) Manufacturing Expenses	1,00,000
(*b*) Administrative Expenses	50,000
(*c*) Selling and Distribution Expenses	50,000
(*d*) Loss on Sale of Fixed Assets	55,000
	2,55,000

There was no Opening and Closing Inventory of Finished Goods and WIP.
Examine the Statement of Profit & Loss and Balance Sheet given above and calculate following ratios:

(i) Gross Profit Ratio
(ii) Current Ratio
(iii) Debt to Equity Ratio
(iv) Inventory or Stock Turnover Ratio
(v) Liquid Ratio
(vi) Proprietary Ratio
(vii) Total Assets to Debt Ratio
(viii) Working Capital Turnover Ratio
(ix) Trade Receivables Turnover Ratio
(x) Operating Ratio

[**Ans.:** (i) *Gross Profit Ratio = 50%*; (ii) *Current Ratio = 2.67 : 1;* (iii) *Debt to Equity Ratio = 0.67 : 1;* (iv) *Inventory or Stock Turnover Ratio = 2.5 Times;* (v) *Liquid Ratio = 1 : 1;* (vi) *Proprietary Ratio = 46.15%;* (vii) *Total Assets to Debt Ratio = 3.25 : 1;* (viii) *Working Capital Turnover Ratio = 2 Times (based on Cost of Sales), Alternatively = 4 Times (based on Sales);* (ix) *Trade Receivables or Debtors' Turnover Ratio = 10 Times;* (x) *Operating Ratio = 60%.*]

14. Following is the Balance Sheet of Raddisson Ltd. as at 31st March, 2026. You are required to calculate Total Assets to Debt Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		7,50,000	6,50,000
(*b*) Reserves and Surplus		3,00,000	2,50,000
2. Non-Current Liabilities			
(*a*) Long-term Borrowings	1	15,00,000	5,00,000
(*b*) Long-term Provisions		2,00,000	1,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	1,50,000
(*b*) Short-term Provisions		1,50,000	50,000
Total		31,00,000	17,00,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		18,00,000	9,00,000
2. Current Assets			
(*a*) Inventories		5,00,000	3,00,000
(*b*) Trade Receivables		6,50,000	4,00,000
(*c*) Cash and Cash Equivalents		1,50,000	1,00,000
Total		31,00,000	17,00,000

Note to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Long-term Borrowings		
10% Debentures	7,50,000	5,00,000
Term loan from Bank	7,50,000	...
	15,00,000	5,00,000

[**Ans.:** *Total Assets to Debt Ratio: 2026—1.82 : 1; 2025—2.83 : 1.*]

15. Following is the Balance Sheet of Star Ltd. as at 31st March, 2026. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		7,50,000	7,50,000
(*b*) Reserves and Surplus		2,50,000	1,50,000
2. Non-Current Liabilities			
Long-term Borrowings		10,00,000	6,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		1,50,000	1,00,000
(*b*) Trade Payables		50,000	1,00,000
Total		22,00,000	17,00,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		8,00,000	9,00,000
2. Current Assets			
(*a*) Inventories		4,50,000	3,00,000
(*b*) Trade Receivables		8,00,000	4,00,000
(*c*) Cash and Cash Equivalents		1,50,000	1,00,000
Total		22,00,000	17,00,000

[**Ans.:** *Debt to Equity Ratio: 2026—1 : 1; 2025—0.67 : 1.*]

16. Following is the Balance Sheet of Colours Ltd. as at 31st March, 2026. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		7,50,000	7,50,000
(*b*) Reserves and Surplus		1,50,000	2,50,000
2. Non-Current Liabilities			
(*a*) Long-term Borrowings		16,00,000	10,00,000
(*b*) Long-term Provisions		2,00,000	...
3. Current Liabilities			
(*a*) Trade Payables		3,50,000	1,00,000
(*b*) Short-term Provisions		1,50,000	50,000
Total		32,00,000	21,50,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		9,00,000	10,50,000
2. Current Assets			
(*a*) Inventories		8,00,000	4,50,000
(*b*) Trade Receivables		13,50,000	5,00,000
(*c*) Cash and Cash Equivalents		1,50,000	1,50,000
Total		32,00,000	21,50,000

[**Ans.:** *Debt to Equity Ratio: 2026—2 : 1; 2025—1 : 1.*]

17. Following is the Balance Sheet of Star Sports Ltd. as at 31st March, 2026. You are required to calculate Debt to Equity Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		7,50,000	7,50,000
(*b*) Reserves and Surplus		1,50,000	2,50,000
2. Non-Current Liabilities			
(*a*) Long-term Borrowings		13,00,000	9,00,000
(*b*) Long-term Provisions		2,00,000	1,00,000
3. Current Liabilities			
(*a*) Trade Payables		1,50,000	1,00,000
(*b*) Short-term Provisions		50,000	...
Total		26,00,000	21,00,000
II. ASSETS			
1. Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
—Property, Plant and Equipment		9,00,000	10,50,000
2. Current Assets			
(*a*) Inventories		6,00,000	4,50,000
(*b*) Trade Receivables		9,50,000	4,50,000
(*c*) Cash and Cash Equivalents		1,50,000	1,50,000
Total		26,00,000	21,00,000

[**Ans.:** *Debt to Equity Ratio: 2026—1.67 : 1; 2025—1 : 1.*]

18. Following is the Balance Sheet of Best Barcode Ltd. as at 31st March, 2026. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		5,00,000	5,00,000
(*b*) Reserves and Surplus		5,00,000	4,00,000
2. Non-Current Liabilities			
Long-term Borrowings		4,50,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	75,000
(*b*) Trade Payables		3,50,000	2,00,000
Total		20,00,000	16,75,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		6,00,000	5,50,000
(*b*) Non-current Investments		1,00,000	2,00,000
2. Current Assets			
(*a*) Inventories		4,00,000	2,75,000
(*b*) Trade Receivables		4,50,000	3,50,000
(*c*) Cash and Cash Equivalents		2,50,000	2,00,000
(*d*) Other Current Assets		2,00,000	1,00,000
Total		20,00,000	16,75,000

[**Ans.:** *Current Ratio: 2026—2.36 : 1; 2025—3.36 : 1; Liquid Ratio: 2026—1.64 : 1; 2025—2.36 : 1.*]

19. Following is the Balance Sheet of Master Services Ltd. as at 31st March, 2026. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		5,00,000	5,00,000
(*b*) Reserves and Surplus		5,00,000	4,00,000
2. Non-Current Liabilities			
Long-term Borrowings		4,50,000	5,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,00,000	75,000
(*b*) Trade Payables		3,50,000	2,00,000
Total		20,00,000	16,75,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		6,00,000	5,50,000
(*b*) Non-current Investments		1,00,000	2,00,000
2. Current Assets			
(*a*) Inventories		4,00,000	2,75,000
(*b*) Trade Receivables		4,50,000	3,50,000
(*c*) Cash and Cash Equivalents		2,50,000	2,00,000
(*d*) Other Current Assets		2,00,000	1,00,000
Total		20,00,000	16,75,000

Inventories include Loose Tools amounting to ₹ 50,000 in both the years.

[**Ans.:** *Current Ratio: 2026—2.27 : 1; 2025—3.18 : 1; Liquid Ratio: 2026—1.64 : 1; 2025—2.36 : 1.*]

20. Following is the Balance Sheet of Ultimate Barcode Ltd. as at 31st March, 2026. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEETS *as at 31st March, 2026*

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		5,00,000	5,00,000
(*b*) Reserves and Surplus		5,00,000	4,00,000
2. Non-Current Liabilities			
Long-term Borrowings		4,00,000	5,50,000
3. Current Liabilities			
(*a*) Short-term Borrowings		1,50,000	75,000
(*b*) Trade Payables		3,50,000	1,50,000
(*c*) Other Current Liabilities	1	1,00,000	...
Total		20,00,000	16,75,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		6,00,000	5,50,000
(*b*) Non-current Investments		1,00,000	2,00,000
2. Current Assets			
(*a*) Inventories	2	4,00,000	2,75,000
(*b*) Trade Receivables		4,50,000	3,50,000
(*c*) Cash and Cash Equivalents		2,50,000	2,00,000
(*d*) Other Current Assets	3	2,00,000	1,00,000
Total		20,00,000	16,75,000

Notes to Accounts

Particulars		31st March, 2026 (₹)	31st March, 2025 (₹)
1. Other Current Liabilities			
Expenses Payable		50,000	...
Current Maturities of Long-term Debt		50,000	...
		1,00,000	...
2. Inventories			
Raw Materials		2,75,000	2,00,000
WIP		75,000	50,000
Stores and Spares		50,000	25,000
		4,00,000	2,75,000
3. Other Current Assets			
Prepaid Expenses		50,000	50,000
Other Advances		1,50,000	50,000
		2,00,000	1,00,000

[**Ans.:** *Current Ratio: 2026—2.08 : 1; 2025—4.00 : 1; Liquid Ratio: 2026—1.42 : 1; 2025—2.67 : 1.*]

21. Following is the Balance Sheet of Master Services Ltd. as at 31st March, 2026. You are required to calculate Current Ratio and Liquid Ratio for the two years.

BALANCE SHEET
as at 31st March, 2026

Particulars	Note No.	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		8,00,000	6,00,000
(*b*) Reserves and Surplus		7,00,000	6,00,000
2. Non-Current Liabilities			
Long-term Borrowings		2,50,000	3,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings		2,50,000	1,25,000
(*b*) Trade Payables		3,00,000	2,00,000
(*c*) Other Current Liabilities	1	2,00,000	1,75,000
Total		25,00,000	20,00,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Property, Plant and Equipment and Intangible Assets:*			
—Property, Plant and Equipment		8,00,000	6,50,000
(*b*) Non-current Investments		2,00,000	2,00,000
2. Current Assets			
(*a*) Inventories	2	5,00,000	2,50,000
(*b*) Trade Receivables		7,50,000	7,00,000
(*c*) Cash and Cash Equivalents		1,50,000	1,00,000
(*d*) Other Current Assets	3	1,00,000	1,00,000
Total		25,00,000	20,00,000

Notes to Accounts

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
1. Other Current Liabilities		
Expenses Payable	1,50,000	1,25,000
Current Maturities of Long-term Debt	50,000	50,000
	2,00,000	1,75,000
2. Inventories		
Raw Materials	3,00,000	2,00,000
WIP	1,00,000	50,000
Loose Tools	1,00,000	...
	5,00,000	2,50,000
3. Other Current Assets		
Prepaid Expenses	25,000	50,000
Other Advances	75,000	50,000
	1,00,000	1,00,000

[**Ans.:** *Current Ratio: 2026—1.87 : 1; 2025—2.3 : 1; Liquid Ratio: 2026—1.3 : 1; 2025—1.7 : 1.*]

22. Current Ratio 4.5, Quick Ratio 3 : 1, Inventory ₹ 72,000. Cash ₹ 4,000, Gross Profit @ $33\frac{1}{3}\%$ on cost was ₹ 1,00,000, Cash Revenue from Operations being $33\frac{1}{3}\%$ of Credit Revenue from Operations; Trade Receivables Turnover Ratio is 3 Times. In current assets, there was no asset other than Inventory, Trade Receivables and Cash. Calculate the Opening Trade Receivables. [**Ans.:** *Opening Trade Receivables* = ₹ *60,000.*]

[**Hint:** Current Assets = ₹ 2,16,000; Quick Assets = ₹ 1,44,000; Closing Trade Receivables = Quick Assets – Cash = ₹ 1,40,000. Credit Revenue from Operations = ₹ 3,00,000.]

Calculation of Current Assets and Quick Assets:

$$\text{Quick Ratio} = \frac{\text{Quick Assets (QA)}}{\text{Current Liabilities (CL)}} = \frac{\text{Current Assets} - \text{Inventory}}{\text{CL}}$$

$$3 = \frac{\text{CA} - ₹\ 72,000}{\text{CL}}$$

$$\text{CA} - ₹\ 72,000 = 3\text{CL}$$

$$\text{CA} - 3\text{CL} = ₹\ 72,000 \quad \text{...(1)}$$

$$\text{CA} - 4.5\text{CL} = 0 \quad \text{[As per Current Ratio]} \quad \text{...(2)}$$

Substracting Equation (2) from (1), we get

$$1.5\text{CL} = ₹\ 72,000 \text{ or } \text{CL} = \frac{₹\ 72,000}{1.5} = ₹\ 48,000.$$

$$\text{Current Assets} = \text{Current Liabilities (CL)} \times \text{Current Ratio}$$
$$= ₹\ 48,000 \times 4.5 = ₹\ 2,16,000.$$

$$\text{Quick Assets} = ₹\ 48,000\ (\text{CL}) \times 3 = ₹\ 1,44,000.$$

23. The Current Ratio of a company is 3 : 1. State giving reason, which of the following would *improve*, *reduce* or *not change* the ratio:

(i) Repayment of a Current Liability;

(ii) Purchase of goods on cash;

(iii) Sale of office equipment for ₹ 4,000 (Book value ₹ 5,000);

(iv) Sale of goods for ₹ 11,000 (cost ₹ 10,000);

(v) Payment of dividend. *(Delhi 1999)*

[**Ans.:** (i) *Improve;* (ii) *No change;* (iii) *Improve;* (iv) *Improve;* (v) *Improve.*]

24. Current Ratio of a company is 2.5 : 1. Which of the following suggestions would improve, reduce or not change it?

(i) Payment to trade creditors

(ii) Sold machinery for cash

(iii) Purchased goods for cash

(iv) Issue of Equity Shares

[**Ans.:** (i) *Increase;* (ii) *Increase;* (iii) *No change;* (iv) *Increase.*]

25. Balance Sheet of *XYZ* Ltd. as at 31st March, 2026 is as follows:

Particulars	31st March, 2026 (₹)	31st March, 2025 (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1,00,000	1,00,000
(b) Reserves and Surplus	28,700	13,000
2. Current Liabilities		
(a) Short-term Borrowings	26,000	25,000
(b) Trade Payables	31,000	36,000
Total	1,85,700	1,74,000
II. ASSETS		
1. Non-Current Assets		
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment	1,12,000	1,08,000
2. Current Assets		
(a) Inventories	27,000	25,000
(b) Trade Receivables	45,000	40,000
(c) Cash and Cash Equivalents	1,000	450
(d) Other Current Assets	700	550
Total	1,85,700	1,74,000

Additional Information:

Revenue from Operations (Net Sales) amounted to ₹ 4,00,000 in 2025 and ₹ 5,00,000 in 2026.

You are required to calculate following ratios: (i) Working Capital Turnover Ratio; (ii) Current Ratio; and (iii) Quick Ratio.

[**Ans.:** (i) *Working Capital Turnover Ratio = 2025—80 Times; 2026—29.94 Times;*
(ii) *Current Ratio = 2025—1.08 : 1; 2026—1.29 : 1;*
(iii) *Quick Ratio = 2025—0.66 : 1; 2026—0.81 : 1.*]

26. Quick assets ₹ 1,50,000; Inventory ₹ 50,000; Working Capital ₹ 1,20,000. Calculate Current Ratio.

[**Hints:** 1. Current Assets = Quick Assets + Inventory.

2. Current Liabilities = Current Assets – Working Capital.] [**Ans.:** *Current Ratio = 2.5 : 1.*]

27. From the following data, calculate Current Ratio and Operating Ratio:

Sundry Debtors ₹ 10,000; Bills Payable ₹ 6,000; Stock ₹ 15,000; Cash ₹ 10,000; Bank ₹ 5,000; Creditors ₹ 14,000; Sales ₹ 60,000; Operating Expenses ₹ 12,000; Cost of Revenue from Operations (Cost of Goods Sold) ₹ 18,000. [**Ans.:** *Current Ratio = 2 : 1; Operating Ratio = 50%.*]

28. From the following Balance Sheet and other information, calculate **any two** of the following ratios:

(i) Debt to Equity Ratio;

(ii) Working Capital Turnover Ratio; and

(iii) Trade Receivables Turnover Ratio.

BALANCE SHEET

as at 31st March, 2026

Particulars	₹
I. EQUITY AND LIABILITIES	
1. Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves and Surplus	90,000
2. Non-Current Liabilities	
Long-term Borrowings (Loan @ 15%)	1,20,000
3. Current Liabilities	
Trade Payables	50,000
Total	3,60,000
II. ASSETS	
1. Non-Current Assets	
Property, Plant and Equipment and Intangible Assets—Property, Plant and Equipment	1,80,000
2. Current Assets	
(a) Inventories	40,000
(b) Trade Receivables	90,000
(c) Cash and Cash Equivalents	50,000
Total	3,60,000

Other Information:

Sales during the year amounted to ₹ 1,80,000.

[**Ans.:** (i) *Debt to Equity Ratio = 0.63 : 1;* (ii) *Working Capital Turnover Ratio = 1.38 Times;* (iii) *Trade Receivables Turnover Ratio = 2 Times.*]

29. Following information has been extracted from the books of Elite Electricals:

Revenue from Operations (Net Sales) ₹ 30,00,000; Cost of Revenue from Operations (Cost of Goods Sold) ₹ 20,00,000; Net Profit ₹ 3,00,000; Current Assets ₹ 6,00,000; Current Liabilities ₹ 2,00,000; Paid-up Share Capital ₹ 5,00,000; Debentures ₹ 2,50,000. Compute **any two** ratios based on the above information: (i) Gross Profit Ratio; (ii) Working Capital Turnover Ratio; and (iii) Debt to Equity Ratio.

[**Ans.:** (i) *Gross Profit Ratio* = $33\frac{1}{3}$% (ii) *Working Capital Turnover Ratio = 7.5 Times;* (iii) *Debt to Equity Ratio = 0.31 : 1.*]

30. Current Ratio 2.5; Working Capital ₹ 60,000. Calculate amount of Current Assets and Current Liabilities. [**Ans.:** *Current Assets* = ₹ *1,00,000; Current Liabilities* = ₹ *40,000.*]

31. Net Sales of M.S. Limited during the year were ₹ 1,80,000. If Trade Receivables Turnover Ratio is 4 times, calculate Trade Receivables in the beginning and at the end of the year. You are informed that closing Trade Receivables are two times in comparison to opening Trade Receivables.

[**Ans.:** *Trade Receivables in the beginning* = ₹ *30,000; Trade Receivables at the end* = ₹ *60,000.*]

32. From the following information, calculate Working Capital Turnover Ratio:

Marketable Securities ₹ 1,50,000; Inventory ₹ 50,000; Sundry Debtors ₹ 2,00,000; Bills Receivable ₹ 50,000; Cash at Bank ₹ 1,00,000; Cash in Hand ₹ 50,000; Bills Payable ₹ 30,000; Sundry Creditors ₹ 2,00,000; Provision for Tax ₹ 20,000; Sales ₹ 23,00,000; Returns Inward ₹ 2,00,000.

[**Ans.:** *Working Capital Turnover Ratio = 6 Times.*]

33. From the following information, calculate Inventory Turnover Ratio; Operating Ratio; and Gross Profit Ratio:

Opening Inventory	₹ 28,000	Carriage Inwards	₹ 4,000
Closing Inventory	₹ 22,000	Office Expenses	₹ 4,000
Purchases	₹ 46,000	Selling and Distribution Expenses	₹ 2,000
Revenue from Operations (Net Sales)	₹ 80,000	Capital Employed	₹ 2,00,000
Return	₹ 10,000		

[**Ans.:** *Inventory Turnover Ratio = 2.24 Times; Operating Ratio = 77.5%; Gross Profit Ratio = 30%.*]