

## Chapter 5 Accounting Ratios

### Question 1

From the following, compute the current ratio.

	₹
Non-Current Investments	1,00,000
Current Investments	40,000
Inventories (including loose tools of ₹ 50,000/-)	2,80,000
<b>Trade Receivables:</b>	
Sundry Debtors	1,60,000
Bills Receivables	20,000
<b>Trade Payables:</b>	
Sundry Creditors	1,20,000
Bills Payables	10,000
Long-term Borrowings	2,00,000
Short-term Borrowings	50,000
Short-term Provision (Provision for Tax)	20,000
Cash and Bank Balance	30,000

### Solution:

Current Ratio = Current Assets/Current Liabilities

Current Assets = Current Investments + Inventories (Excluding Loose Tools) + Trade Receivables (Sundry Debtors + Bills Receivables) + Cash and Bank Balance

$$= 40,000 + 2,30,000 + 1,60,000 + 20,000 + 30,000$$

$$= ₹. 4,80,000/-$$

Current Liabilities = Trade Payables (Sundry Creditors + Bills Payables) + Short term Borrowings + Short term Provision (Provision for Tax)

$$= 1,20,000 + 10,000 + 50,000 + 20,000$$

$$= ₹. 2,00,000/-$$

$$\text{Current Ratio} = 4,80,000/2,00,000 = 2 : 4 : 1$$

### Question 2

Following particulars are given to you:

	₹
Trade Investments	2,50,000

Marketeable Securities		40,000
Tangible Fixed Assets		6,00,000
Intangible Assets (Goodwill)		1,00,000
Trade Receivables	2,00,000	1,80,000
Less: Provision for Doubtful Debts	20,000	
Cash and Bank Balance		80,000
Trade Payables		1,20,000
Rent Payables		10,000
Dividend Payable		30,000
Inventories		3,90,000
Long term Borrowings (8% Debentures)		2,80,000
Short term Borrowings (Bank Overdraft)		25,000
Short term Provisions:		
Provisions for Tax		55,000
Income Tax paid in Advance		30,000

Calculate the Liquidity Ratios.

**Solution:**

Liquidity Ratios include the following 2 ratios. Namely,

- Current ratio
- Quick ratio

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Current Ratio = Current Assets/Current Liabilities

Current Assets = Marketable Securities + Trade Receivables + Cash and Bank Balance + Inventories + Income Tax paid in advance

$$= 40,000 + 1,80,000 + 80,000 + 3,90,000 + 30,000$$

$$= ₹. 7,20,000/-$$

Current Liabilities = Trade Payables + Rent Payable + Dividend Payable + Bank Overdraft + Provisions for Tax

$$= 1,20,000 + 10,000 + 30,000 + 25,000 + 55,000$$

$$= ₹. 2,40,000/-$$

Current Ratio =  $7,20,000/2,40,000 = 3 : 1$

Quick Ratio = Liquid Assets or Quick Assets/Current Liabilities

Liquid Assets = Current Assets – Inventories – Income Tax Paid in Advance

=  $7,20,000 - 3,90,000 - 30,000$

=  $3,00,000$

Quick Ratio =  $3,00,000/2,40,000 = 1.25 : 1$