

## HW - Chapter 3 - Ratios - Q2

The net profit is calculated as follows:

Particulars	Rs.
Sales (150% of Rs. 4,80,000)	7,20,000
Direct costs	(4,80,000)
Gross profit	2,40,000
Operating expenses	(80,000)
Profit before Interest and Tax (EBIT)	1,60,000
Interest charges (8% of Rs. 4,00,000)	(32,000)
Profit before taxes	1,28,000
Taxes (@ 50%)	(64,000)
Net profit after taxes	64,000

- (i) Operating profit margin =  $\text{EBIT} \div \text{Sales} = \text{Rs. } 1,60,000 \div 720,000 = 22.22\%$
- (ii) Net profit margin =  $\text{Net Profit after taxes} \div \text{Sales} = 64,000 \div 720,000 = 8.9\%$
- (iii) Return on assets =  $\text{NPAT} + \text{Interest} \div \text{Average Total Assets} \times 100$   
 $= (64,000 + 32,000) \div 800,000 = 12\%$
- (iv) Asset turnover =  $\text{Sales} \div \text{Assets} = 720,000 \div 800,000 = 0.9 \text{ times}$
- (v) Return on equity =  $\text{Net Profit after taxes} \div \text{Equity} = 64,000 \div (50\% \text{ of } 800,000)$   
 $= 16\%$