

## HW - Chapter 3 - Ratios - Q7

(a) Calculation of Operating Expenses for the year ended 31<sup>st</sup> March, 2021

		(Rs.)
Net Profit [@ 6.25% of Sales]		3,75,000
Add: Income Tax (@ 50%)		3,75,000
Profit Before Tax (PBT)		7,50,000
Add: Debenture Interest		60,000
Profit before interest and tax (PBIT)		8,10,000
Sales		60,00,000
Less: Cost of goods sold	18,00,000	
PBIT	8,10,000	26,10,000
Operating Expenses		33,90,000

(b) Balance Sheet as on 31<sup>st</sup> March, 2021

Liabilities	Rs.	Assets	Rs.
Share Capital	10,50,000	Fixed Assets	17,00,000
Reserve and Surplus	4,50,000	Current Assets:	
15% Debentures	4,00,000	Stock	1,50,000
Payables	2,00,000	Receivables	2,00,000
		Cash	50,000
	21,00,000		21,00,000

**Working Notes:**

(i) **Share Capital and Reserves and Surplus**

The return on net worth is 25%. Therefore, the profit after tax of Rs. 3,75,000 should be equivalent to 25% of the net worth.

Net worth x 25% = Rs. 3,75,000

Net worth = Rs. 3,75,000 × 100 ÷ 25 = Rs. 15,00,000

The ratio of share capital to reserves is 7:3

Share Capital = 15,00,000 × 7 ÷ 10 = Rs. 10,50,000

Reserves and Surplus = 15,00,000 × 3 ÷ 10 = Rs. 4,50,000

(ii) **Debentures**

Interest on Debentures @ 15% = Rs. 60,000

Debentures = 60,000 ÷ 15% = Rs. 4,00,000

**(iii) Current Assets**

Current Ratio = 2

Payables = Rs. 2,00,000

Current Assets = 2 x Current Liabilities = 2 x 2,00,000 = Rs. 4,00,000

**(iv) Fixed Assets**

	Rs.
Share capital	10,50,000
Reserves and Surplus	4,50,000
Debentures	4,00,000
Payables	2,00,000
	21,00,000
Less: Current Assets	4,00,000
Fixed Assets	17,00,000

**(v) Composition of Current Assets**

Inventory Turnover = 12

Cost of goods sold ÷ Closing stock = 12

Closing stock = Rs. 18,00,000 ÷ 12 = Rs. 1,50,000

Composition	Rs.
Stock	1,50,000
Receivables	2,00,000
Cash (balancing figure)	50,000
Total Current Assets	4,00,000