

HW - Chapter 3 - Ratios - Q9

Working notes:

(i) Computation of Current Assets and Current Liabilities

$$\text{Current assets} \div \text{Current liabilities} = 2.5$$

$$\text{Current assets} = 2.5 \text{ Current liabilities}$$

$$\text{Now, Working capital} = \text{Current assets} - \text{Current liabilities}$$

$$\text{Rs. } 4,80,000 = 2.5 \text{ Current liability} - \text{Current liability}$$

$$\text{Or, } 1.5 \text{ Current liability} = \text{Rs. } 4,80,000$$

$$\text{Current Liabilities} = \text{Rs. } 3,20,000$$

$$\text{So, Current Assets} = \text{Rs. } 3,20,000 \times 2.5 = \text{Rs. } 8,00,000$$

(ii) Computation of Inventories

$$\text{Liquid ratio} = \text{Liquid assets} \div \text{Current liabilities}$$

$$1.5 = \text{Current assets} - \text{Inventories} \div \text{Rs. } 3,20,000$$

$$1.5 \times \text{Rs. } 3,20,000 = \text{Rs. } 8,00,000 - \text{Inventories}$$

$$\text{Inventories} = \text{Rs. } 8,00,000 - \text{Rs. } 4,80,000 = \text{Rs. } 3,20,000$$

(iii) Computation of Proprietary fund; Fixed assets; Capital and Sundry creditors

$$\text{Fixed Asset to Proprietary ratio} = \text{Fixed assets} \div \text{Proprietary fund} = 0.75$$

$$\text{Fixed Assets} = 0.75 \text{ Proprietary fund}$$

$$\text{Proprietary fund} = \text{Fixed Assets} + \text{Net Working Capital} - \text{Long Term Debt}$$

$$= 0.75 \text{ Proprietary fund} + \text{Rs. } 4,80,000 - 0$$

$$\text{Proprietary fund} = \text{Rs. } 19,20,000$$

$$\text{Fixed Assets} = 0.75 \text{ proprietary fund} = 0.75 \times \text{Rs. } 19,20,000 = \text{Rs. } 14,40,000$$

$$\text{Capital} = \text{Proprietary fund} - \text{Reserves \& Surplus} = \text{Rs. } 19,20,000 - \text{Rs. } 3,20,000 = \text{Rs. } 16,00,000$$

$$\text{Sundry Creditors} = \text{Current liabilities} - \text{Bank overdraft}$$

$$= \text{Rs. } 3,20,000 - \text{Rs. } 80,000 = \text{Rs. } 2,40,000$$

Balance Sheet as at 31st March, 2021

Liabilities	Rs.	Assets	Rs.
Capital	16,00,000	Fixed Assets	14,40,000
Reserves & Surplus	3,20,000	Inventories	3,20,000
Bank overdraft	80,000	Other Current Assets	4,80,000
Sundry creditors	2,40,000	(Balancing figure)	
	22,40,000		22,40,000