


CASE STUDY: COMPARISON REPORT

Subject: Financial Management

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PROFITABILITY RATIO	T LTD.	U LTD.
A. Gross Profit Ratio GPR=Gross ProfitX100/Sales	$686 \times 100 / 1131$ = 60.65%	$608 \times 100 / 1131$ = 53.75%
<i>Gross Profitability of T Ltd. is good as compared to U Ltd. It signifies the ability of a firm to earn gross profit against every rupee of sale</i>		
B. Net Profit Ratio NPR=Net ProfitX100/Sales	$447 \times 100 / 1131$ = 39.52%	$420 \times 100 / 1131$ = 37.13%
<i>Net Profitability of T Ltd. is good as compared to U Ltd. It shows that T Ltd. is earning more rupee net profit as compared to U Ltd.</i>		

TURNOVER RATIO	T LTD.	U LTD.
A. Stock Turnover Ratio Cost of Goods Sold/Avg. Stocks COGS=Sales-Gross Profit Avg.Stocks=(Opening Stock+Closing Stock)/2	445/88.5 = 5.028 times	523/101.5 = 5.152 times
	COGS:1131-686=445 Avg.S:(68+109)/2=88.5	COGS: 1131-608=523 Avg.S:(83+120)/2=101.5
<i>Stock Turnover Ratio of T Ltd. is less as compared to U Ltd. This signifies that stock movement of T ltd. is less as compared to U Ltd.</i>		

TURNOVER RATIO	T LTD.	U LTD.
B. Debtors Turnover Ratio Credit Sales/Avg. Debtors Avg.Debtors=(Debtors+Bills receivable+Debtors+Bills receivable)/2	435/58.5 = 7.435 times	696/87.5 = 7.954 times
	Avg.Debtors: (51+22+29+15)/2 = 58.5	Avg.Debtors: (58+44+51+22)/2 = 87.5
<i>Debtors Turnover Ratio signifies the speed of recovery of dues from debtors.</i> <i>Recovery ratio of U Ltd. is better as compared to T Ltd.</i>		

TURNOVER RATIO	T LTD.	U LTD.
C. Creditors Turnover Ratio Credit Purchases/Avg. Creditors Avg.Creditors=(Creditors+Bills payable+Creditors+Bills payable)/2	409/106 = 7.435 times	477/98 = 7.954 times
	Avg.Creditors: (109+30+58+15)/2 = 106	Avg.Creditors: (99+35+46+16)/2 = 98
<i>Creditors Turnover Ratio signifies the promptness in payment of creditors.</i> <i>U Ltd. is more prompt in payment as compared to T Ltd.</i>		

SOLVENCY RATIO	T LTD.	U LTD.
A. Debt Equity Ratio Long term debt/Equity	334/871 = 0.383 times	367/922 = 0.398 times
<u>Equity</u> : Equity+Reserves & Surplus+Preference Share Capital <u>Debt</u> : Loan+Debentures	435+262+174 = 871 174+160 = 334	544+234+144 = 922 207+160 = 367
<i>Gross Profitability of T Ltd. is good as compared to U Ltd.</i>		

SOLVENCY RATIO	T LTD.	U LTD.
B. Proprietary Ratio Equity/Total Assets Total Assets=Current Assets+Fixed Assets	871/1361 = 0.639 times	921/1445 = 0.637 times
<i>It signifies employment of shareholders' fund in total tangible asset. T ltd is performing well as compared to U Ltd.</i>		

SHORT TERM RATIOS	T LTD.	U LTD.
A. Current Ratio Current Assets/Current Liabilities	280/156 = 1.794 times	379/156 = 2.429 times
<i>Current Ratio signifies the ability of firm to repay its current liabilities. CR of U Ltd. is good as compared to T Ltd.</i>		
B. Quick Asset Ratio Quick Assets/Current Liabilities QA=CA-Stocks	171/156=2.49 times 280-109=171	259/156=1.66 time 379-120=259
<i>Quick asset ratio signifies the ability of a company to repay current liabilities from quick assets. QAR of T Ltd is good as compared to U Ltd,</i>		

THANK YOU!