

7. Debt Equity Ratio = Long Term Debt / Equity  
There are no Long Term Debts. Therefore, D/E Ratio is NIL NIL
8. Return Investment = Net Profit ÷ Capital Employed = ₹ (15,000 ÷ 35,000) × 100 = 42.86%

### Balance Sheet and Ratio Analysis

#### Illustration 66:

Aditya is made an offer by the promoters of Himsagar Enterprises Ltd, to invest in the project of the Company by purchasing a substantial portion of the Share Capital. He is promised good returns by way of Dividends and Capital Appreciation. Aditya desires that you compute the following ratios for financial analysis – (a) Return on Investment Ratio; (b) Net Profit Ratio; (c) Stock Turnover Ratio; (d) Current Ratio and (e) Debt Equity Ratio.

The Income Tax rate may be presumed at 50%. The figures given to him are as under:

| Particulars             | ₹ 000s | Particulars               | ₹ 000s |
|-------------------------|--------|---------------------------|--------|
| Sales                   | 16,000 | Share Capital             | 5,000  |
| Raw Material Consumed   | 7,800  | Reserves and Surplus      | 1,500  |
| Consumables             | 800    | Secured Term Loans        | 12,000 |
| Direct Labour           | 750    | Unsecured Term Loans      | 1,500  |
| Other Direct Expenses   | 480    | Trade Creditors           | 3,350  |
| Administrative Expenses | 1,200  | Investments               | 400    |
| Selling Expenses        | 260    | Inventories               | 6,000  |
| Interest                | 1,440  | Receivables               | 3,700  |
| Fixed Assets            | 14,000 | Cash at Hand and Bank     | 100    |
| Depreciation            | 700    | Provisions                | 650    |
|                         |        | Other Current Liabilities | 200    |

#### Solution:

##### 1. Profit and Loss Account of Himsagar Enterprises Ltd. for the year ended (in ₹000s)

| Particulars                    | ₹     | ₹       |
|--------------------------------|-------|---------|
| Sales                          |       | 16,000  |
| Less : Direct Costs:           |       |         |
| — Raw Material Consumed        | 7,800 |         |
| — Consumables                  | 800   |         |
| — Direct Labour                | 750   |         |
| — Other Direct Expenses        | 480   | (9,830) |
| Gross Profit                   |       | 6,170   |
| Less: Indirect Expenses        |       |         |
| — Administrative Expenses      | 1,200 |         |
| — Selling Expenses             | 260   |         |
| — Depreciation                 | 700   | (2,160) |
| Profit before Interest and Tax |       | 4,010   |
| Less: Interest                 |       | (1,440) |
| Net Profit Before Tax          |       | 2,570   |
| Less: Income tax at 50%        |       | (1,285) |
| Net Profit After Tax           |       | 1,285   |