Lecture - ~~20~~19
AnD

classmate
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Debt-equity ratio = $\frac{\text{Total long term debt}}{\text{shareholder equity}}$

or $\frac{\text{long term outside liability}}{\text{Tangible net worth}}$

Q1. Capital = 200 lakhs
Free reserve and ~~surplus~~ surplus = 300 lakhs
Long term loans and liabilities = 800 lakhs

$$\text{Debt equity ratio} = \frac{800}{500} = 1.6 : 1$$

Q2. Equity share = 1 lakh
General reserve = 45,000
Accumulated profit = 30000
Debentures = ~~₹~~ 75,000
Sundry creditors = 40,000
~~Outside~~ Outstanding expenses = 10000
Find debt-equity ratio

$$\frac{75000}{100000 + 45000 + 30000}$$

$$= \frac{75}{175} = 3:7$$

Q3.

Liabilities	Assets
Capital = 300	Plant & equip = 65
General reserve = 55	Land & building = 200
Profit/loss credit bal = 7	Cash = 1
Loan = 65	Bills receivable = 100
Debentures = 85	Govt. stock (bonds) = 25
Bank overdraft = 38	Stocks = 128
Sundry creditors = 26	Prepaid expenses = 1
Provision of tax = 9	Goodwill, intangible = 30
Proposed dividend = 15	

Find current ratio, quick ratio, debt equity ratio.

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Current ratio = $\dfrac{\text{Current assets}}{\text{Current liabilities}}$

$= \dfrac{128 + 25 + 100 + 1 + 1}{26 + 38 + 9 + 15}$

$= \dfrac{255}{88} = 2.89$

∴ ~~Not good as it is 2.89 : 1~~ (industry std → 2 : 1)

Quick ratio = $\dfrac{\text{current asset} - \text{stock}}{\text{current liabilities} - \text{bank overdraft}}$

$= \dfrac{255 - 128 - 1 - 25}{88}$

$= \dfrac{126 - 25}{88} = \dfrac{101}{88} = 1.48 : 1$

~~as industry std ⇒ 1 : L~~ bad

Debt equity ratio =

Debt ratio = $\dfrac{\text{Total debt}}{\text{Total asset}}$

Current asset = 5L
Non " " = 8.45L
Non current ~~equity~~ liability = 3.40L
Current liability = 2.70L
Account Payable = 20,000
Find the debt ratio.

$\cancel{\dfrac{5 + 8.45}{3.4 + 2.7 + 0.2}} \Big/ \dfrac{13.45}{6.3} = \cancel{2.135}$

$\dfrac{3.4 + 2.7}{5 + 8.45} = \dfrac{6.1}{13.45} = 0.45$

Q5. Calculate inventory turnover ratio and the days inventory outstanding from the info -

Opening inventory = 25,000

Closing " = 30,000

Cost of goods manufactured = 2,45,000

$$\boxed{\text{Inventory turn over ratio} = \frac{\text{Cost of goods sold}}{\text{Average inventory}}}$$

Average inventory = (25000 + 30000)/2 = 27500

Cost of goods sold = 245,000 + 25000 - 30000
= 240000

∴ Inventory turnover ratio = $\frac{240000}{27500}$ = 8.72

Days inventory = $\frac{365}{\text{Ratio}}$ = $\frac{365}{8.72}$ = 41.85

Gross profit ratio = $\frac{\text{Gross profit}}{\text{Net sales}}$

Gross sales = 10 L

Sales returns = 90,000

Cost of goods sold = 6,75,000

Net sales ~~Gross profit ratio~~ = Gross sales - sales returns
= 10L - 90000 = 9,10,000

Gross profit ~~Net sales~~ = ~~Gross sales~~ Net sales - cost of goods sold
= 9,10,000 - 6,75,000
= 2,35,000

Gross profit ratio = $\frac{\text{Gross profit}}{\text{Net sales}}$ = $\frac{2,35,000}{9,10,000}$ = 0.26

8. Cash = 10000 ✓ A

Accounts receivables = 20,000 A

Inventory = 80000 ✓ A

Prepaid insurance = 6000 ✓ A

Long term assets = 2L

Accounts payables = 30000 ✓ L

Notes payable due in 10 months = 25000 L

Wages payable = 5000 L

Long term liability = 70000

Owner's equity = 1,96,000

Find out the current ratio, quick ratio, debt equity ratio, debt ratio & working capital.

Current ratio = $\frac{\text{current assets}}{\text{current liabilities}}$

$= \frac{10000+80000+6000}{30000+25000+5000} = \frac{96000+30000}{60000}$ 126000

$=$ ~~1.6~~ 2:1

Quick ratio = $\frac{\text{Current asset} - \text{stock}}{\text{Current liabilities} - \text{bank overdraft}}$ ✓

$\frac{\text{Long term outside liability } \cancel{96000}}{\text{Tangible net worth}} = \frac{46000}{80000} \rightarrow 126000-80000$ $= 0.35$

$= 0.766$

$\frac{\text{current asset} - \text{inventory}}{\text{current liability}} = \frac{\cancel{126000}\ 46000}{60000}$

Debt equity ratio = $\frac{\text{Total long term debt}}{\text{shareholder equity}}$

$= \frac{70000}{196000} = 0.357$ ✓

Working capital = Total current assets − Total current liabilities

$= 36000 + 30000 = 36000$