



Q18. From the following information, calculate the following ratios :

1. Quick Ratio
2. Inventory Turnover Ratio
3. Return on Investment

	₹
Inventory in the beginning	50,000
Inventory at the end	60,000
Revenue from operations	4,00,000
Gross Profit	1,94,000
Cash and Cash Equivalents	40,000
Trade Receivables	1,00,000
Trade Payables	1,90,000
Other Current Liabilities	70,000
Share Capital	2,00,000
Reserve and Surplus	1,40,000

(Balance in the Statement of Profit and Loss A/c)

Solution:

$$\begin{aligned} \text{(i) Quick Ratio} &= \frac{\text{Quick Assets}}{\text{Current Liabilities}} \\ \text{Quick Assets} &= \text{Cash} + \text{Trade Receivables} \\ &= 40,000 + 1,00,000 \\ &= 1,40,000 \\ \text{Current Liabilities} &= \text{Creditors} + \text{Other Current Liabilities} \\ &= 1,90,000 + 70,000 \\ &= 2,60,000 \\ \text{Quick Ratio} &= \frac{1,40,000}{2,60,000} = 0.54 : 1 \end{aligned}$$

$$(ii) \text{ Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$\begin{aligned} \text{Cost of Revenue from Operations} &= \text{Revenue from Operations} - \text{Gross Profit} \\ &= 4,00,000 + 1,94,000 \\ &= 2,06,000 \end{aligned}$$

$$\begin{aligned} \text{Average Inventory} &= \frac{\text{Inventory in the beginning} + \text{Inventory at the end}}{2} \\ &= \frac{50,000 + 60,000}{2} \\ &= 55,000 \end{aligned}$$

$$\text{Inventory Turnover Ratio} = \frac{2,06,000}{55,000} = 3.74 \text{ times}$$

$$\text{Return on Investment} = \frac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$\begin{aligned} \text{Capital Employed} &= \text{Equity Share Capital} + \text{Reserves and Surplus (Profit and Loss)} \\ &= 2,00,000 + 1,40,000 \\ &= 3,40,000 \end{aligned}$$

$$\text{Rate of Investment} = \frac{1,40,000}{3,40,000} \times 100 = 41.17 \%$$

***** END *****