



Q19. From the following calculate

1. Debt Equity Ratio
2. Total Assets to Debt Ratio
3. Proprietary Ratio.

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<b>Equity Share Capital</b>	<b>75,000</b>
<b>Preference Share Capital</b>	<b>25,000</b>
<b>General Reserve</b>	<b>45,000</b>
<b>Balance in the Statement of Profit and Loss</b>	<b>30,000</b>
<b>Debentures</b>	<b>75,000</b>
<b>Trade Payable</b>	<b>40,000</b>
<b>Outstanding Expenses</b>	<b>10,000</b>

Solution:

(a) Debt Equity Ratio =  $\frac{\text{Debt}}{\text{Equity}}$

$$\begin{aligned} \text{Equity} &= \text{Equity Share Capital} + \text{Preference Share Capital} + \text{General Reserve} + \text{Accumulated Profit} \\ &= 75,000 + 25,000 + 45,000 + 30,000 \\ &= 1,75,000 \\ \text{Debt} &= \text{Debentures} = 75,000 \\ \text{Debt Equity Ratio} &= \frac{75,000}{1,75,000} = \frac{3}{7} = 0.43 : 1 \end{aligned}$$

(b) Total Assets to Debt Ratio =  $\frac{\text{Total Assets}}{\text{Debt}}$

$$\begin{aligned} \text{Total Assets} &= \text{Equity Share Capital} + \text{Preference Share Capital} + \text{General Reserve} \\ &\quad + \text{Accumulated Profits} + \text{Debentures} + \text{Trade Payables} + \text{Outstanding Expenses} \\ (\because \text{Total liabilities is equal to total assets}) \\ &= 75,000 + 25,000 + 45,000 + 30,000 + 75,000 + 40,000 + 10,000 \\ &= 3,00,000 \\ \text{Total Assets to Debt Ratio} &= \frac{3,00,000}{75,000} = 4 : 1 \end{aligned}$$

(c) Proprietary Ratio =  $\frac{\text{Shareholders Funds}}{\text{Net Assets}}$

$$\text{Proprietary Ratio} = \frac{1,75,000}{3,00,000} = \frac{7}{12} = 0.58 : 1$$

\*\*\*\*\* END \*\*\*\*\*