



Q17. The Following Balance Sheet and other information, calculate following ratios:

- i. Debt - Equity Ratio
- ii. Working Capital Turnover Ratio
- iii. Trade Receivables Turnover Ratio

Balance Sheet as at March 31, 2015

Particulars	Rs.
I. Equity and Liabilities	
1. Shareholder's Funds	
a. Share Capital	10,00,000
b. Reserve and Surplus	9,00,000
2. Non - Current Liabilities	
a. Long - term borrowings	12,00,000
3. Current Liabilities	
a. Trade Payables	5,00,000
Total	36,00,000
II. Assets	
1. Non - Current Assets	
a. Fixed Assets	
Tangible assets	18,00,000
2. Current Assets	
a. Inventories	4,00,000
b. Trade Receivables	9,00,000
c. Cash and Cash Equivalents	5,00,000
Total	36,00,000

Additional Information Revenue from Operations
18,00,000

Solution:

1. Debt - Equity Ratio

$$\begin{aligned}\text{Debt Equity Ratio} &= \frac{\text{Debt}}{\text{Equity}} \\ &= \frac{12,00,000}{19,00,000} \\ &= 0.63:1 \\ \text{Debt} &= \text{Long Term Borrowings} = 12,00,000 \\ \text{Equity} &= \text{Share Capital} + \text{Reserve and Surplus} \\ &= 10,00,000 + 9,00,000 \\ &= 19,00,000\end{aligned}$$

2 . Working Capital Turnover Ratio

$$\begin{aligned}\text{Working Capital Turnover Ratio} &= \frac{\text{Revenue from operations}}{\text{Working Capital}} \\ &= \frac{18,00,000}{13,00,000} \\ &= 1.39 \text{ times} \\ \text{Revenue from Operations} &= 18,00,000 \\ \text{Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\ &= 18,00,000 - 5,00,000 \\ &= 13,00,000\end{aligned}$$

3. Trade Receivables Turnover Ratio

$$\begin{aligned}\text{Trade Receivables Turnover Ratio} &= \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}} \\ &= \frac{18,00,000}{9,00,000} \\ &= 2 \text{ times} \\ \text{Net Credit Sales} &= 18,00,000 \\ \text{Average Trade Receivables} &= 9,00,000\end{aligned}$$

Note:

- 1.We have assumed Revenue from Operations to be revenue generated from credit sales.
2. No information is given in the question about opening and closing balance of trade receivable. Hence, trade receivables given in the Balance Sheet is assumed to be Average Trade Receivables.

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