



Q21. Calculate the following ratio on the basis of Following information:

1. Gross Profit Ratio
2. Current Ratio
3. Acid test Ratio
4. Inventory Turnover Ratio
5. Fixed Assets Turnover Ratio

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<b>Gross Profit</b>	<b>50,000</b>
<b>Revenue from Operations</b>	<b>1,00,000</b>
<b>Inventory</b>	<b>15,000</b>
<b>Trade Receivables</b>	<b>27,500</b>
<b>Cash and Cash Equivalents</b>	<b>17,500</b>
<b>Current Liabilities</b>	<b>40,000</b>
<b>Land and Building</b>	<b>50,000</b>
<b>Plant and Machinery</b>	<b>30,000</b>
<b>Furniture</b>	<b>20,000</b>

Solution:

$$(i) \text{ Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{50,000}{1,00,000} \times 100 = 50\%$$

$$(ii) \text{ Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Current Assets} = \text{Inventory} + \text{Trade Receivables} + \text{Cash and Cash Equivalents}$$

$$= 15,000 + 27,500 + 17,500$$

$$= 60,000$$

$$\text{Current Ratio} = \frac{60,000}{40,000} = 1.5 : 1$$

$$(iii) \text{ Acid Test Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$\text{Liquid Assets} = \text{Current Assets} - \text{Inventory}$$

$$= 60,000 - 15,000$$

$$= 45,000$$

$$\text{Acid test Ratio} = \frac{45,000}{40,000} = 1.125 : 1$$

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

$$\text{Cost of Revenue from Operations} = \text{Revenue from Operations} - \text{Gross Profit}$$

$$= 1,00,000 - 50,000$$

$$= 50,000$$

$$\text{Average Inventory} = 15,000$$

$$\text{Inventory Turnover Ratio} = \frac{50,000}{15,000} = 3.33 \text{ times}$$

$$(v) \text{ Fixed Assets Turnover Ratio} = \frac{\text{Revenue from operations}}{\text{Net Fixed Assets}}$$

$$\text{Net Fixed Assets} = \text{Land \& Building} + \text{Plant and Machinery} + \text{Furniture}$$

$$= 50,000 + 30,000 + 20,000$$

$$= 1,00,000$$

$$\text{Fixed Assets Turnover Ratio} = \frac{1,00,000}{1,00,000} = 1 : 1$$

Note: No information is given in the question about opening and closing balance of Inventory. Hence, inventory given in the question is assumed to be Average Inventory.

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