



Q10. Calculate following ratios from the following information

- i. Current ratio
- ii. Liquid ratio
- iii. Operating Ratio
- iv. Gross profit ratio

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Current Assets	35,000
Current Liabilities	17,500
Inventory	15,000
Operating Expenses	20,000
Revenue from operations	60,000
Cost of revenue from operations	30,000

Solution:

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

$$\text{Current Ratio} = \frac{35,000}{17,500} = 2 : 1$$

$$\text{ii) Add Test Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$\begin{aligned}\text{Liquid Assets} &= \text{Current Assets} - \text{Inventory} \\ &= 35,000 - 15,000 \\ &= 20,000\end{aligned}$$

$$\text{Add Test Ratio} = \frac{20,000}{17,500} = \frac{1.143}{1} = 1.143 : 1$$

$$\begin{aligned}\text{iii) Operating Ratio} &= \frac{(\text{Cost of Goods Sold} + \text{Operating Expenses})}{\text{Net Revenue from Operations}} \times 100 \\ &= \frac{(30,000 + 20,000)}{60,000} \times 100 \\ &= \frac{50,000}{60,000} \times 100 = 83.33\%\end{aligned}$$

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

$$\begin{aligned}\text{Gross Profit} &= \text{Net Revenue from operations} - \text{Cost of Goods Sold} \\ &= 60,000 - 30,000 \\ &= 30,000\end{aligned}$$

$$\text{Gross Profit Ratio} = \frac{30,000}{60,000} \times 100 = 50\%$$

***** END *****