DEPARTMENT OF HUMANITIES AND MANAGEMENT

HUM 3051 Engineering Economics and Financial Management

<u>Additional Numerical on Ratio Analysis for Practice</u>

1) Selected financial information about Vijay Merchant Company is given below:

	20X2	20X1
Sales	`69,000	`43,000
Cost of goods sold	57,000	32,500
Inventories	11,400	5,500
Trade receivables	7,200	3,000
Cash and cash equivalents	1,500	800
Other current assets	4,000	2,700
Current liabilities	16,000	11,000

In 20X1, the company had receivables of `2,500 and inventories of `3,000.

Required

a) Compute the current ratio, quick ratio, average collection period, and inventory turnover for 20X1 and 20X2.

b) State whether there is a favourable or unfavourable change in liquidity from 20X1 to 20X2.

2) The total sales call credit of a firm is Rs, 3,00,000. It has a gross profit margin of 25% and current ratio is 2. The firm's current liability is Rs. 65,000. Inventories are Rs. 34,000 and cash at Rs. 13,000.

a) Determine the average inventory to be carried by the firm, if an inventory turnover of 5 times is expected.

b) Determine the average collection period if the opening balance of debtors is intended to be Rs. 50,000. (Assume a 365day year)

3) The Balance Sheet and Income Statement of a Horizon Ltd. are given below.

Balance Sheet as on 31-3-2010

Liabilities	Amount	Assets	Amount

Capital Retained earnings Sundry creditors Bills payable Other current liabilities	$20000 $7360 $2080 $4000 $400	Plant and equipment Land and building Cash Sundry debtors Stock Prepaid expense	$12800 $1600 $3200 $6400 $9600 $240
Total	$33840		$33840

Income statement year ended 31-3-2010

Particulars	**Amount in $**
Sales	$80,000
Costs of goods sold	$61600
Gross profit	$18400
Operating expenses	$13600
Profit before tax	$48000
Tax	50%

Sundry debtors and stock at the beginning of the year was $6,000 and $8,000 respectively.

You are required to determine the following ratios,

a) Current ratio

b) Acid test ratio

c) Inventory turnover ratio

d) Debtor turnover ratio

e) Gross profit ratio

f) Net profit ratio