19BAT602 – Accounting For Managers

Unit II – Ratio Analysis

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1st Indian Institution to Implement Design Thinking Curriculum

Redesigning Common Mind and Business Towards Excellence

Topic ?????????

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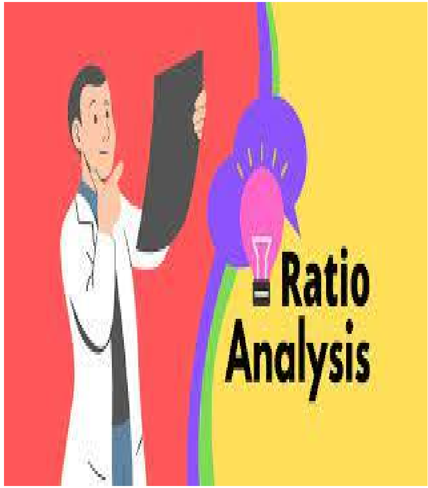
Lets Focus on

Ratio Analysis

Liabilities	Amount	Assets	Amount
Equity Share Capital	1,00,000	Cash in hand	2,000
6% Preference Share Capital	1,00,000	Cash at bank	10,000
7% Debentures - 10 years	40,000	Bills Receivable	30,000
8% Public Debt - 5 years	20,000	Investment (Short - term)	20,000
Bank Overaft	40,000	Debtors	70,000
Creditors	60,000	Stock	40,000
Outstanding Creditors	7,000	Furniture	30,000
Proposed Dividend	10,000	Machinery	1,00,000
Reserves	1,50,000	Land & Buildings	2,20,000
Provision for Taxation	20,000	Goodwill	35,000
Profit & Loss A/c	20,000	Preliminary Expenses	10,000



Problem:- 3

Calculate 1. Short - Term Solvency Ratio
2. Long - Term Solvency Ratio

Problem:- 3

Calculate 1. Short - Term Solvency Ratio

i) Current Ratio

ii) Quick Ratio

2. Long - Term Solvency Ratio

iii) Proprietory Ratio = Propritors Fund / Total Tangible Assets

iv) Cap[ital Gearing Ratio = Preference Capital + Long - term debt bearing fixed interest / Equity Share Capital + Reserves and Surplus

v) Debt - Equity Ratio = Debt / Equity

Problem:- 3

Current Ratio = Current Assets / Current Liabilities

Current Assets = 2,000 + 10,000 + 30,000 + 20,000 + 70,000 + 40,000 /

40,000 + 60,000 + 7,000 + 10,000 + 20,000

Current Assets = 1,72,000 / 1,37,000

Current Ratio = 1.3 : 1

Problem:- 3

Quick Ratio = Quick Assets / Quick Liabilities

Quick Ratio = 2,000 + 10,000 + 30,000 + 20,000 + 70,000 / 60,000 + 7,000 + 10,000 + 20,000

Quick Ratio = 1,32,000 / 97,000

Quick Ratio = 1.35 : 1

Problem:- 3

Proprietory Ratio = Proprietors Funds / Total Tangible Assets

Proprietors Funds = Equity Share Capital + Preference Share Capital + Reserves and Surplus

Proprietors Funds = 1,00,000 + 1,00,000 + 1,50,000 + 20,000 / 5,67,000 - 35,000 - 10,000

Proprietors Funds = 3,70,000 / 5,22,000

Proprietors Funds = 0. 71 : 1

Problem:- 3

Debt - Equity Ratio = External Equities /Internal Equities = Debt / Equity

Debt = Debentures + Current Liabilities

Debt = 60,000 + 1,37,000 = 1,97,000

Equity = Proprietors Funds = 3,70,000

Debt - Equity Ratio = 1,97,000 / 3,70,000

Debt - Equity Ratio = 0.53 : 1

Problem:- 3

Capital Gearing Ratio

Capital Gearing Ratio = Preference Capital + Long - term debt bearing fixed interest / Equity Share Capital + Reserves and Surplus

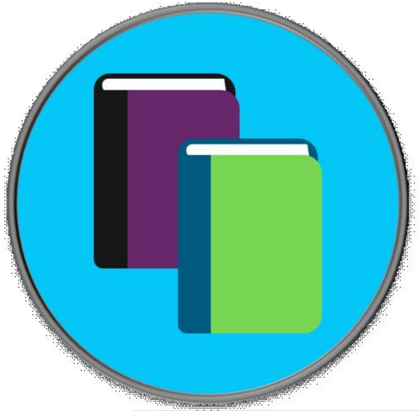
Capital Gearing Ratio = 1,00,000 + 40,000 + 20,000 / 1,00,000 + 1,50,000 + 20,000

Capital Gearing Ratio = 1,60,000 / 2,70,000

Capital Gearing Ratio = 0.59 : 1

Reference

- https://www.investopedia.com/terms/a/accounting.asp#:~:text=Accounting%20is%20the%20process%20of,regulators%20and%20tax%20collection%20entities.



Summary

Meaning of financial accounting

Definition of financial account

Types of Accounting.

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