



19BAT602 – Accounting For Managers

Unit II – Ratio Analysis



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Redesigning Common Mind and Business Towards Excellence



Topic ??????????





Lets Focus on

Ratio Analysis



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Problem:- 1

Liabilities	Amount	Assets	Amount
Equity Capital	1,50,000	Fixed Assets	1,62,000
Revenue Reserves	30,000	<u>Current Assets:-</u>	
8% Debentures	20,000	Stock	22,000
<u>Current Liabilities:-</u>		Debtors	51,000
Sundry creditors	49,000	Bills Receivable	2,000
		Bank	12,000
Total	2,49,000	Total	2,49,000





Problem:- 1

Findout the Current Ratio and Quick Ratio

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

The equation is illustrated with icons: a calculator for Current Ratio, a warehouse for Current Assets, and a hand holding money for Current Liabilities.



Problem:- 1

Current Ratio = Current Assets / Current Liabilities

Current Ratio = 87,000 / 49,000

Current Ratio = 1.79 : 1



Current
Ratio

=



Current
Assets

Current
Liabilities





Problem:- 1

Quick Ratio = Quick Assets / Quick Liabilities

Quick Assets = Current Assets - Stock

= 87,000 - 22,000

= 65,000

Quick Ratio = 65,000 / 49,000 = 1.32:1



Quick Ratio
Formula =



Quick Assets

Current Liabilities





Problem:- 2

Liabilities	Amount	Assets	Amount
5,000 Equity Capital Rs. 100 each	5,00,000	Land and Building	6,00,000
2,000 8% Preference shares of Rs 100 each	2,00,000	Plant and Machinery	5,00,000
4,000 9% Debentures of Rs. 100 each	4,00,000	Stock	2,40,000
Revenue Reserves	3,00,000	Debtors	2,00,000
Sundry creditors	1,50,000	Cash and Bank	55,000
Bank Overdraft	50,000	Prepaid Expenses	5,000
Total	16,00,000	Total	16,00,000





Problem:- 2

Calculate 1. Current Ratio 2. Liquid Ratio 3. Proprietary Ratio 4. Debt - Equity Ratio 5. Capital Gearing Ratio





Problem:- 2

Current Ratio = Current Assets / Current Liabilities

Current Assets = Stock + Debtors + Cash + Bank + Prepaid Expenses

Current Assets = 2,40,000 + 2,00,000 + 55,000 + 5,000

Current Assets = 5,00,000





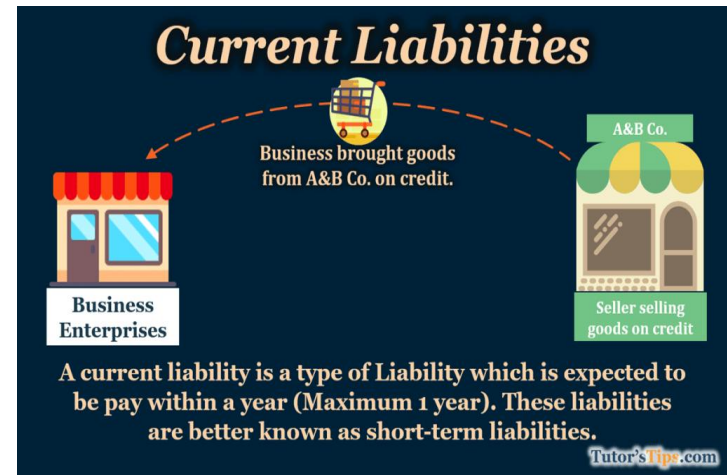
Problem:- 2

Current Ratio = Current Assets / Current Liabilities

Current Liabilities = Creditors + Bank Overdraft

Current Liabilities = 1,50,000 + 50,000

Current Liabilities = 2,00,000





Problem:- 2

Current Ratio = Current Assets / Current Liabilities

Current Ratio = 5,00,000 / 2,00,000

Current Ratio = 2.5 : 1





Problem:- 2

Liquid Ratio = Liquid Assets / Liquid Liabilities

Liquid Assets = Current Assets - (Stock + Prepaid Expenses)

Liquid Assets = 5,00,000 - (2,40,000 + 5,000)

Liquid Assets = 2,55,000





Problem:- 2

Liquid Ratio = Liquid Assets / Liquid Liabilities

Liquid Liabilities = Current Liabilities - Overdraft

Liquid Liabilities = 2,00,000 - 50,000

Liquid Liabilities = 1,50,000





Problem:- 2

Liquid Ratio = Liquid Assets / Liquid Liabilities

Liquid Ratio = 2,55,000 / 1,50,000

Liquid Ratio = 1.7 / 1





Problem:- 2

Proprietary Ratio = Proprietors Funds / Total Tangible Assets

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

Proprietors Funds = 5,00,000 + 2,00,000 + 3,00,000

Proprietors Funds = 10,00,000



Problem:- 2

Proprietary Ratio = Proprietors Funds / Total Tangible Assets

Total Tangible Assets = 16,00,000

Proprietary Ratio = Proprietors Funds / Total Tangible Assets

Proprietary Ratio = 10,00,000 / 16,00,000

Proprietary Ratio = 0.625 : 1



Problem:- 2

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

Debt = Debentures + Current Liabilities

Debt = 4,00,000 + 2,00,000 = 6,00,000

Equity = Proprietors Funds = 10,00,000

Debt - Equity Ratio = 6,00,000 / 10,00,000

Debt - Equity Ratio = 0.6 : 1



Problem:- 2

5. Capital Gearing Ratio

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

Capital Gearing Ratio = 2,00,000 + 4,00,000 / 5,00,000 + 3,00,000

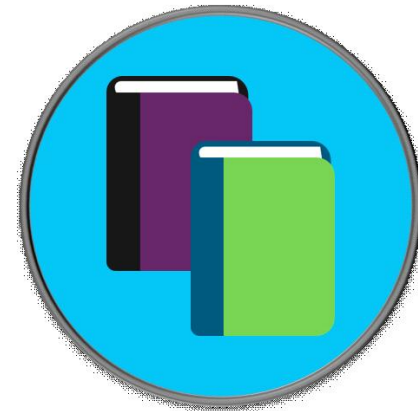
Capital Gearing Ratio = 6,00,000 / 8,00,000

Capital Gearing Ratio = 0.75 : 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.

SUMMARY





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