

Exercise No. 1 The following are the summarized Profit and Loss A/c and Balance Sheet of Zane Ltd. for

Dr. Profit and Loss Account Cr.

Particulars		Particulars	
To Opening Stock 99,000		By Sales 950,000	
To Purchases 545,000		By Closing Stock 150,000	
To Freight Inward 16,000			
To Gross Profit 440,000			
1,100,000		1,100,000	
To Operating Expenses 200,000		By Gross Profit 440,000	
To Loss on Sale of Asset 40,000.		By Non-operating income 60,000	
To Net Profit 260,000			
500,000		500,000	
Liabilities and Equity		Assets	
Share Capital	200,000	Land and Building	150,000
Reserve and Surplus	260,000	Plant and Machinery	180,000
Bill Payable	40,000	Stocks	150,000
Other Current Liabilities	90,000	Debtors	45,000
		Bills Receivable	5,000
		Cash & Bank	60,000
	590,000		590,000

Requirement:

Calculate the following: 1. Gross Profit Ratio. 2. Operating Profit Ratio. 3. Return on Capital Employed. 4. Stock Turnover Ratio. 5. Debtors Turnover Ratio. 6. Current Ratio. 7. Sales to Fixed Assets Ratio. 8. Net Profit to Fixed Assets Ratio. 9. Sales to Capital Employed Ratio. 10. Turnover to Total Assets Ratio.

Solution :

$$(1) \text{ Gross Profit Ratio} = \text{G.P} / \text{Sales} \times 100 = 440,000 / 950,000 \times 100 = 46.32 \%$$

$$(2) \text{ Operating Profit Ratio} = \text{Operating Profit} / \text{Sales} \times 100 = 240,000 / 950,000 \times 100 = 25.26\%$$

$$(3) \text{ Return on Capital Employed} = \text{Net Profit} / \text{Capital Employed} \times 100 \\ = 260,000 / 460,000 (200,000 + 260,000) \times 100 = 56.52\%$$

$$(4) \text{ Stock Turnover Ratio} = \text{Cost of Goods Sold} / \text{Average Stock} \\ = 510,000 / 124,500 = 4.096$$

(5) Debtors Turnover Ratio = Credit Sales / Average Debtors (+) Average Bills Receivable

$$= 950,000 / (45,000 + 5,000) = 950,000 / 50,000 = 19$$

$$(6) \text{ Current Ratio} = \text{Current Assets} / \text{Current Liabilities} \\ = 260,000 (150,000 + 45,000 + 5,000 + 60,000) / 130,000 (40,000 + 90,000) \\ = 2:1$$

$$(7) \text{ Sale to Fixed Assets Ratio} = \text{Sales} / \text{Fixed Assets} = 950,000 / 330,000 \\ = 2.88 \text{ Times}$$

$$(8) \text{ Net Profit to Fixed Assets Ratio} = \text{N.P} / \text{Fixed Assets} \times \mathbf{100} \\ = 260,000 / 330,000 \times 100 = 78.79\%$$

$$(9) \text{ Sales to Capital Employed Ratio} = \text{Sales} / \text{Capital Employed} \\ = 950,000 / 460,000 = 2.06$$

$$(10) \text{ Turnover to Total Assets Ratio} = \text{Sales} / \text{Total Assets} = 950,000 / 590,000 \\ = 1.61 \text{ Times}$$

Exercise No.2 Betal Manufacturing company submits the following Profit and Loss Account for the year ended 31st March, 2019.

Dr. Profit and Loss A/c Cr.

Particulars		Particulars	
To Opening Stock	52,000	By Sales	320,000
To Purchase	160,000	By Closing Stock	76,000
To Wages	48,000		
To Manufacturing Expenses	32,000		
To Gross Profit c/d	104,000		
	396,000		396,000
To Selling & Distribute Expenses	8,000	By Gross Profit b/d	104,000
To Administrative Expenses	45,600	By Profit on Sale of Shares	9,600
To Loss by Fire	2,400		
To Loss on Sale of Furniture	1,600		
To Net Profit	56,000		
	113,600		113,600

Calculate : 1. Gross profit ratio, 2. Net profit ratio, 3. Operating profit ratio, 4. Operating net profit ratio.

Solution :

$$\begin{aligned} \text{(i) Gross Profit Ratio} &= \text{Gross profit} / \text{Sales} \times 100 \\ &= 104,000 / 320,000 \times 100 = 32.5\% \end{aligned}$$

$$\begin{aligned} \text{(ii) Net Profit Ratio} &= \text{Net Profit} / \text{Sales} \times 100 \\ &= 56,000 / 320,000 \times 100 = 17.5\% \end{aligned}$$

$$\begin{aligned} \text{(iii) Operating Ratio} &= \text{Cost of Goods Sold (+)Operating Expenes} / \text{Sales} \times 100 \\ &= 136,000 (+)53,600 / 320,000 \times 100 = 59.25\% \end{aligned}$$

$$\begin{aligned} \text{(iv) Operating Profit Ratio} &= \text{Operating Net Profit} / \text{Sales} \times 100 \\ &= 104000 - 53000 / 320,000 \times 100 = 15.9\% \end{aligned}$$

- Closing Stock + Opening Stock = 100,000 IQD(2)

- Closing Stock - Opening Stock = 5,000 IQD(3)

Subtracting equation (2) from equation(3) , we get

2 (closing Stock) = 105,000 IQD

Closing Stock =52,500 IQD

But, Closing Stock + Opening Stock = 100,000 IQD

Opening Stock + IQD 52,500 = 100,000 IQD

Opening Stock =47,500(100,000- 52,500)

**3. Capital Turnover Ratio =Cost of Sales / Capital
2 = 300000 / Capital**

Capital = 150,000 IQD

4. Fixed Assets Turnover Ratio = Sales / (Fixed Assets – Depreciation)

4= 300000 / Fixed Assets

Fixed Assets = 75,000 IQD

**4. Debt Collection Period = (Debtors / (sales)) X12 month
6= debtors /300000**

Debtors = 300,000 /6 = 50,000 IQD

5. Creditors Payment Period = 73 Days

Creditors Payment Period = creditors /(sales / 365)

73 = creditors X 365 /300000 = 60000