7. RATIO ANALYSIS

ASSIGNMENT PROBLEMS

PROBLEM NO: 1

$$\text{Given} = \frac{\text{Fixed Assets}}{\text{Proprietor's Funds Ratio}} = 0.60$$

Since no debt fixed assets + net working capital = equity since fixed assets to proprietor's funds is 0.60 then net working capital to proprietor's fund = 1 – 0.60 = 0.40

$$\text{So} = \frac{\text{NWC}}{\text{Proprietor's Funds}} = \frac{2,40,000}{\text{Proprietor's Funds}} = 0.40$$

$$\text{Proprietor's Funds} = \frac{2,40,000}{0.40} = 6,00,000$$

Proprietor's funds = fixed assets + working capital

6,00,000 = fixed assets + 2,40,000

Fixed Assets = 6,00,000 – 2,40,000 = **3,60,000**

$$\text{Working capital turnover ratio} = \frac{\text{Sales}}{\text{NWC}} = \frac{\text{Sales}}{2,40,000} = 8 \text{ times}$$

Sales = 8 x 2,40,000 = 19,20,000

Net profit = 20% on proprietor's funds (equity)

= 20% of 6,00,000 = 1,20,000

$$\text{Net profit ratio} = \frac{1,20,000}{19,20,000} \times 100 = 6.25\%$$

PROBLEM NO: 2

i) Computation of Average Inventory

Gross Profit = 25% of Rs. 30, 00,000 = Rs. 7,50,000

Cost of goods sold (COGS) = Sales - Gross Profit = Rs. 30,00,000 – Rs. 7,50,000

= Rs. 22,50,000

Inventory Turnover Ratio = COGS / Average Inventory

6 = 22,50,000/ Average inventory

Average inventory = Rs. 3,75,000

ii) Computation of Purchases

Purchases = COGS + (Closing Stock – Opening Stock) = Rs. 22,50,000 + 80,000*

Purchases = Rs. 23,30,000

* Increase in Stock = Closing Stock – Opening Stock = Rs. 80,000

iii) Computation of Average Debtors

Let Credit Sales be Rs. 100, Cash sales = 25/100 x 100 = Rs.25

Total Sales = 100 + 25= Rs. 125

Total sales is Rs. 125 credit sales is Rs. 100

If total sales is Rs. 30,00,000, then credit sales is = 30,00,000 x 100/125

Credit Sales = Rs. 24,00,000

Cash Sales = (Rs. 30,00,000 – Rs. 24,00,000) = Rs. 6,00,000

Debtors Turnover Ratio = Net Credit Sales/ Average debtors =

8 = 24,00,000/ Average debtors

Average Debtors = Rs. 3,00,000

iv) Computation of Average Creditors

Credit Purchases = Purchases – Cash Purchases

= Rs. 23,30,000 – Rs. 2,30,000 = Rs. 21,00,000

Creditors Turnover Ratio = Credit Purchases / Average Creditors

10 = 21,00,000 / Average Creditors

Average Creditors = Rs. 2,10,000

v) Computation of Average Payment Period

Average Payment Period = Average Creditors/ Average Daily Credit Purchases

$$= \frac{2,10,000}{\frac{Credit\ Purchases}{365}} = \frac{2,10,000}{\frac{21,00,000}{365}} = 36.5 \text{ days}$$

Alternatively

Average Payment Period = 365/Creditors Turnover Ratio = *365/10 = 36.5 days

vi) Computation of Average Collection Period

Average Collection Period = Average Debtors / Net Credit Sales x*365 =3,00,000/24,00,00 x 365 = 45.265 days

Alternatively

Average collection period = 365 / Debtors Turnover Ratio = *365/8 =45.625 days

* 1 year is taken as 365 days

vii) Computation of Current Assets

Current Ratio = Current Assets (CA)/ Current Liabilities (CL) = 2.4

2.4 Current Liabilities = Current Assets or CL = CA/2.4

Further, Working capital = Current Assets – Current liabilities

So, Rs. 2,80,000 = CA-CA/2.4

Rs. 2,80,000 = 1.4 CA/2.4 Or, 1.4 CA = Rs. 16,72,000

CA = Rs. 4,80,000

viii) Computation of Current Liabilities

Current liabilities = 4,80,000/2.4 = Rs. 2,00,000

PROBLEM NO: 3

Sales (credit) = 8,00,000

GP% = 20%

Current Ratio = 3 : 1

Current liabilities = 1,00,000

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

$$3 = \frac{\text{Current Assets}}{1,00,000}$$

Current Assets = 3,00,000

Notes:

(1) Determination of deb closing debtors

C.A = Debtors + Inventory + Cash

3,00,000 = Debtors + 1,00,000 + 50,000

Debtors at the end = 1,50,000

(2) Determination of cost of goods sold

GP% = 20%

Logs % = 100 – 20 = 80%

Cost of goods sold = 8,00,000 x 80% = 6,40,000

(3) Determination of Average Inventory

$$\text{Inventory turnover} = \frac{\text{logs}}{\text{Average Inventory}}$$

$$4 = \frac{6,40,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{6,40,000}{4} = 1,60,000$$

(4) $$\text{Average Debtors} = \frac{\text{Closing Debtors} + \text{Opening Debtors}}{2}$$

$$= \frac{1,50,000 + 72,222}{2} = 1,11,111$$

(5) $$\text{Debtors turnover} = \frac{\text{Credit Sales}}{\text{Average Debtors}}$$

$$= \frac{8,00,000}{1,11,111} = 7.2 \text{ times}$$

$$\text{Average collection period} = \frac{360}{7.2} = 50 \text{ days}$$

PROBLEM NO: 4

WORKING NOTES:

1. Current assets and Current liabilities computation:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2.5}{1}$$

Or Current assets = 2.5 Current liabilities

Now Working capital = Current assets - Current liabilities

Or 1.5 Current liabilities = Rs. 2,40,000

∴ Current liabilities = Rs. 1,60,000

So, Current assets = Rs. 1,60,000 x 2.5 = Rs. 4,00,000

2. Computation of stock

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

$$\text{Or } 1.5 = \frac{\text{Current assets} - \text{Inventories}}{\text{Rs.}1,60,000}$$

Or Inventories = Rs. 4,00,000 - Rs, 2,40,000

Or Stock = Rs. 1,60,000

3. Computation of Proprietary fund, Fixed assets, Capital and Sundry creditors

$$\text{Fixed Asset to Proprietary ratio} = \frac{\text{Fixed assets}}{\text{Proprietary fund}} = 0.75$$

∴Fixed assets = 0.75 Proprietary fund (PF) [FA + NWC = PF or NWC = PF - FA (i.e. 75 PF)] and Net working capital (NWC) = 0.25 Proprietary fund

Or Rs. 2,40,000/0.25 = Proprietary fund

Or Proprietary fund = Rs. 9,60,000

And Fixed assets = 0.75 proprietary fund = 0.75 x Rs. 9,60,000 = Rs. 7,20,000

Capital = Proprietary fund - Reserves & Reserves & Surplus = Rs. 9,60,000 - Rs. 1,60,000 = Rs. 8,00,000

Sundry creditors = (Current liabilities - Bank overdraft) = (Rs. 1,60,000 - Rs. 40,000) = Rs. 1,20,000

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Capital	8,00,000	Fixed assets	7,20,000
Reserves & Surplus	1,60,000	Stock	1,60,000
Bank overdraft	40,000	Current assets	2,40,000
Sundry creditors	1,20,000		
	11,20,000		**11,20,000**

PROBLEM NO: 5

Gross Profit Rs. 54,000

Gross Profit Margin 20%

$\therefore$ Sales = $\frac{\text{Gross Profit}}{\text{Gross Profit Margin}}$ = Rs. 54,000/0.20= Rs. 2,70,000

Credit Sales to Total Sales = 80%

$\therefore$ Credit Sales = Rs. 2,70,000 x 0.80= Rs. 2,16,000

Total Assets Turnover = 0.3 times

$\therefore$ Total Assets = $\frac{\text{Sales}}{\text{Total Assests Turnover}}$ = $\frac{\text{Rs. 2,70,000}}{0.3}$ = Rs. 9,00,000

Sales - Gross Profit = COGS

$\therefore$ COGS = Rs. 2,70,000 - 54,000 = Rs. 2,16,000

Inventory turnover = 4 times

Inventory = $\frac{\text{COGS}}{\text{Inventory turnover}} = \frac{2,16,000}{4}$ = Rs. 54,000

Average collection Period = 20 Days.

$\therefore$ Debtors turnover = $\frac{360}{\text{Average Collection Period}}$ = 360/20=18

$\therefore$ Debtors = $\frac{\text{Credit Sales}}{\text{Debtors turnover}} = \frac{2,16,000}{18}$ = Rs. 12,000

Current ratio = 1.8

1.8 = $\frac{\text{Debtors} + \text{Inventory} + \text{Cash (Current Assets)}}{\text{Creditors (Current Liabilities)}}$

1.8 Creditors = (Rs. 12,000 + Rs. 54,000+Cash)

1.8 Creditors = Rs. 66,000 + Cash ----------(i)

Long-term Debt to Equity = 40%

Shareholders' Funds (Equity) = Rs. 6,00,000

$\therefore$ Long-term Debt = Rs. 6,00,000 x 40% = Rs. 2,40,000

Creditors = Rs. 9,00,000 - (6,00,000+2,40,000) = Rs. 60,000

$\therefore$ Cash = (Rs. 60,000 x 1.8) - Rs. 66,000 = Rs. 42,000 [From equation (i)]

Balance Sheet

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	60,000	Cash	42,000
Long-term debt	2,40,000	Debtors	12,000
Shareholders' funds	6,00,000	Inventory	54,000
		Fixed Assets (Balancing figure)	7,92,000
	9,00,000		9,00,000

PROBLEM NO: 6

a) Preparation of Balance Sheet of a Company

Working Notes:

i) Cost of Goods Sold = Sales - Gross Profit (= 25% of Sales)

= Rs. 30,00,000 - Rs. 7,50,000 = Rs. 22,50,000

ii) Closing Stock = Cost of Goods Sold / Stock Turnover

= Rs. 22,50,000/6 = Rs. 3,75,000

iii) Fixed Assets = Cost of Goods Sold / Fixed Assets Turnover

= Rs. 22,50,000/1.5 = Rs. 15,00,000

iv) Current Assets = Current Ratio = 1.5 and Liquid Ratio = 1

Stock = 1.5 - 1 = 0.5

Current Assets = Amount of Stock x 1.5/0.5 = Rs. 3,75,000 x 1.5/0.5 = Rs. 11,25,000

v) Liquid Assets (Debtors and Cash) = Current Assets – Stock

= Rs. 11,25,000 - Rs. 3,75,000 = Rs. 7,50,000

vi) Debtors = Sales x Debtors Collection period /12 = Rs. 30,00,000 x 2 /12 = Rs. 5,00,000

vii) Cash = Liquid Assets - Debtors = Rs. 7,50,000 - Rs. 5,00,000 = Rs. 2,50,000

viii) Net worth = Fixed Assets /1.2 = Rs. 15,00,000/1.2 = Rs. 12,50,000

ix) Reserves and Surplus

Reserves and Share Capital = 0.6 + 1 = 1.6

Reserves and Surplus = Rs. 12,50,000 x 0.6/1.6 = Rs. 4,68,750

x) Share Capital = Net worth - Reserves and Surplus = Rs. 12,50,000 - Rs. 4,68,750 = Rs. 7,81,250

xi) Current Liabilities = Current Assets/ Current Ratio = Rs. 11,25,000/1.5 = Rs. 7,50,000

xii) Long-term Debts

Capital Gearing Ratio = Long-term Debts / Equity Shareholders' Fund

Long-term Debts = Rs. 12,50,000 x 0.5 = Rs. 6,25,000

Balance Sheet of a Company

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Share Capital	7,81,250	Fixed Assets	15,00,000
Reserves and Surplus	4,68,750	Current Assets	
Long-term debts	6,25,000	Stock	3,75,000
		Debtors	5,00,000
		Cash	2,50,000
	26,25,000		**26,25,000**

b) Statement Showing Working Capital Requirement

A.	Current Assets		
	Stock	3,75,000	
	Debtors	5,00,000	

	Cash	2,50,000	11,25,000
B.	Current Liabilities		7,50,000
	Working Capital before Provision (A - B)		3,75,000
Add:	Provision for Contingencies @ 10% of Working Capital including Provision i.e. 1/9th of Working Capital before Provision: 3,75,000 x 1/9		41,667
	Working Capital Requirement including Provision		4,16,667

PROBLEM NO: 7

Statement showing calculation of operating expenses for the year ended 31-3-13

Particulars	Rs.	Rs.
Net Profit (@9% of sales)		9,00,000
Add Income tax @ 40%		6,00,000
Profit before tax (PBT)		15,00,000
Add Debenture Interest		2,00,000
Profit before interest & tax (PBIT)		17,00,000
Sales		1,00,00,000
Less cost of goods sold	40,00,000	
PBIT	17,00,000	(57,00,000)
Operating Expenses		43,00,000

Balance sheet as on 31-03-2013

Liabilities	Rs.	Assets	Rs.
Share capital	15,00,000	Fixed Assets	35,83,333
Reserves & surplus	15,00,000	**Current Assets:**	
15% debentures	13,33,333	Stock	4,00,000
Sundry Creditors	5,00,000	Debtors	6,00,000
		Cash	2,50,000
	48,33,333		**48,33,333**

Working Notes:

The return on net worth is 30% therefore the profit after tax of 9,00,000 should be equated to 30% of the net worth

(i) Net worth x $\frac{30}{100}$ =9,00,000

Net worth = 9,00,000 x $\frac{100}{30}$ = 30,00,000

The ratio of share capital do reserves = 1 : 1

Share capital = 30,00,000 x $\frac{1}{2}$ = 15,00,000

Reserves = 30,00,000 x $\frac{1}{2}$ = 15,00,000

(ii) Debentures

Interest on debentures @ 15% = 2,00,000

Debentures = $\frac{2,00,000}{15\%}$ = 13,33,333

(iii) Current Assets

Current Ratio = 2.5

Creditors = Rs. 5,00,000

Current Assets = 2.5 x Current Liabilities

= 2.5 x 5,00,000 = 12,50,000

(iv) Fixed Assets

Liabilities	**Rs.**
Share capital	15,00,000
Reserves & Surplus	15,00,000
15% Debentures	13,33,333
Payables	5,00,000
	48,33,333
Less: Current Assets	(12,50,000)
Fixed Assets	**35,83,333**

(v) Composition of Current Assets

Inventory turnover = 10

$$\frac{\text{Cost of goods sold}}{\text{Closing Stock}} = 10$$

$$\text{Closing Stock} = \frac{40,00,000}{10} = 4,00,000$$

Composition	**Rs.**
Stock	4, 00, 000
Receivables	6, 00, 000
Cash (Balancing figure)	2, 50,000
	12,50,000

PROBLEM NO: 8

(a) Working Notes:

(i) Calculation of sales $= \frac{\text{Fixed Assets}}{\text{Sales}} \quad \frac{1}{4} \quad \frac{40,00,000}{\text{Sales}} = \frac{1}{4}$

= 40, 00,000 x 4 = 1, 60,00,000

(ii) Calculation of current Assets

$$\frac{\text{Fixed Assets}}{\text{Current Assets}} = \frac{2}{1}$$

$$\text{Current Assets} = \frac{40,00,000}{2} = 20,\ 00,000$$

(iii) Calculation of raw material consumption and direct wages.

Particulars	**Rs.**
Sales	1,60,00,000
Less: Gross Profit (20%)	(32,00,000)
Works Cost	1,28,00,000

Raw material consumption (30% of works cost) 38,00,000

Direct wages (20% of works cost) 25,60,000

(iv) Calculation of stock of Raw Material (1 months is usage)

$$= 38,\ 40,000 \times \frac{1}{12} = 3,20,000$$

(v) Calculation of stock of finished goods = 5% of works cost

= 5% x 1, 28, 00,000 = 6,40,000

(vi) Calculation of Current Liabilities

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{20,00,000}{\text{Current Liabilities}} = \frac{2}{1}$$

$$\text{Current Liabilities} = \frac{20,00,000}{2} = 10,00,000$$

(vii) Calculation of debtors

$$\text{Average collection period} = \frac{\text{Debtors}}{\text{Credit Sales}} \times 365$$

$$\frac{\text{Debtors}}{1,60,00,000} \times 360 = 20$$

Debtors = 8,88,888 (OR) 8,89,000

(viii) Calculation of long term loan $= \frac{\text{Long term loan}}{\text{Current Liabilities}} = \frac{3}{1} = \frac{\text{Long term loan}}{10,00,000} = \frac{3}{1}$

Long term loan = 30, 00,000

(ix) Calculation of cash balance

Particulars	Rs.
Current Assets	20,00,000
Less Debtors	(8,89,000)
Raw Material stock	(3,20,000)
Finished Goods stock	(6,40,000)
Cash Balance	1,51,000

(x) Calculation of net worth

Particulars		Rs.
Fixed Assets		40,00,000
Current Assets		20,00,000
Total Assets		60,00,000
Less: Long term loans	30,00,000	
Current Liabilities	10,00,000	(40,00,000)
Net worth		20,00,000

Net worth = share capital + reserves = 20, 00,000 (1)

$$\frac{\text{Capital}}{\text{Reserves \& Surplus}} = \frac{2}{3} \Rightarrow 3 \text{ Capital} = 2 \text{ reserves Surplus}$$

Substitute (2) in (1) $= \frac{2}{3}$ reserves & Surplus+ Reserves = 20,00,000

50 reserves = 60, 00,000

Reserves = 12, 00,000

Share capital = 20, 00,000 – 12, 00,000 = 8, 00,000

Profit and loss A/c of PQR Ltd for the year ended 31-12-2018.

Particulars	Rs.	Particulars	Rs.
To Direct materials	38,40,000	By Sales	1,60,00,000
To direct Wages	25,60,000		
To works (overheads) (b/f)	64,00,000		
To Gross Profit (20% Sales)	32,00,000		
	1,60,00,000		**1,60,00,000**
To Selling & Distribution expenses (Bal f/g)	16,00,000	By Gross Profit	32,00,000
To Net Profit (b/f)	16,00,000		
	32,00,000		**32,00,000**

Balance Sheet of PQR Ltd as at 31-12-2018

Liabilities	Rs.	Assets	Rs.
Share Capital	8,00,000	Fixed Assets	40,00,000
Reserves & Surplus	12,00,000	**Current Assets**	
Long term loans	30,00,000	Stock of R/M	3,20,000
Current Liabilities	10,00,000	Stock of F.G	6,40,000
		Debtors	8,89,000
		Cash	1,51,000
	60,00,000		**60,00,000**

PROBLEM NO: 9

The net profit is calculated as follows:

Particulars	Rs.	Rs.
Sales (150% of Rs. 4,80,000)		7,20,000
Direct costs		4,80,000
Gross profit		2,40,000
Operating expenses	80,000	
Interest changes (8% of Rs. 4,00,000)	32,000	1,12,000
Profit before taxes		1,28,000
Taxes (@ 50%)		64,000
Net profit after taxes		64,000

i. Net profit margin = Profit after Taxes/Sales = 64,000/7,20,000 = 0.89 or 8.9%

ii. Net profit margin = EBIT (1-t)/ Sales = 1,60,000 (1-0.5)/7,20,000 = 0.111 or 11.1%

iii. Return on Assets = = EBIT (1-t)/ Assets = 1,60,000(1-0.5)/8,00,000 = 0.10 or 10%

iv. Asset turnover = Sales/ Assets = 7,20,000/8,00,000 = 0.9 times

v. Return on equity = Net profit after taxes/Owners equity =Rs. 64,000 / 50% of 8,00,000
= 64,000/4,00,000 = 0.16 or 16%

PROBLEM NO: 10

(i) Computation of cover for preference and equity dividends

Preference dividend 10% of 50,00,000 = 5,00,000

Equity dividend 10% of 70,00,000 = 7,00,000

Total dividend = 12,00,000

(ii) Cover for preference & equity dividend $= \frac{\text{Preference dividend} + \text{equity dividend}}{\text{PAT}}$

$= \frac{12,00,000}{15,00,000} = 1.25$

(iii) Earnings per shares $= \frac{\text{Earnings available to eg shareholders}}{\text{No. of equity shares}}$

$$= \frac{15,00,000 - 5,00,000}{70,000} = 14.29$$

$$\text{Price earnings ratio} = \frac{\text{Market Price}}{\text{EPS}} = \frac{200}{14.29} = 14 \text{ times}$$

PROBLEM NO: 11

Ratios	Navya Ltd.	Industry Norms
1. $\frac{Current\ Assets}{Current\ Liabilities}$	$\frac{52,80,000}{19,80,000} = 2.67$	2.50
2. $\frac{Sales}{Debtors}$	$\frac{1,10,00,000}{11,00,000} = 10.0$	8.00
3. $\frac{Sales}{Stcok}$	$\frac{1,10,00,000}{33,00,000} = 3.33$	9.00
4. $\frac{Sales}{Total\ Assets}$	$\frac{1,10,00,000}{77,00,000} = 1.43$	2.00
5. $\frac{Net\ Profit}{Sales}$	$\frac{2,31,000}{1,10,00,000} = 2.10\%$	3.50%
6. $\frac{Net\ Profit}{Total\ Assets}$	$\frac{2,31,000}{77,00,000} = 3.00\%$	7%
7. $\frac{Net\ Profit}{Net\ Worth}$	$\frac{2,31,000}{48,00,000} = 4.81\%$	10.5%
8. $\frac{Total\ Debt}{Total\ Assets}$	$\frac{29,00,000}{77,00,000} = 37.66\%$	60%

Comments:

1. The position of Navya Ltd. is better than the industry norm with respect to Current Ratios and the Sales to Debtors Ratio.
2. However, the position of sales to stock and sales to total assets is poor comparing to industry norm.
3. The firm also has its net profit ratios, net profit to total assets and net profit to total worth ratio much lower than the industry norm.
4. Total debt to total assets ratio suggest that, the firm is geared at lower level and debt are used to Asset.

PROBLEM NO: 12

i) **Liquidity ratios:**

a) Current ratio = CA/CL= Rs. 25,88,000 / Rs. 6,40,000 = 4.04 : 1 (previous year); Rs. 30,52,000 / Rs. 8,00,000 = 3.82 : 1 (current year)

b) Acid test ratio = (Rs. 25,88,000 − Rs.18,68,000) / Rs. 6,40,000 = 1.125 : 1 (previous year); (Rs. 30,52,000 − Rs. 21,72,000) / Rs. 8,00,000 = 1.1 : 1 (current year)

ii) **Solvency ratios:**

a) **Debt-equity ratios:**

1. Total outside debts/Equity funds = Rs. 22,40,000/Rs. 24,68,000 = 0.91 (previous year) ; Rs. 24,00,000/Rs. 28,12,000 = 0.85 (current year)

2. Long-term debts/Equity funds = Rs. 16,00,000/Rs. 24,68,000 = 0.65 (previous year); Rs. 16,00,000/Rs. 28,12,000 = 0.57 (current year)

b) Interest coverage ratio:

= EBIT/Interest charges = Rs.12,00,000/Rs.1,60,000 =7.5 times (current year)

iii) Profitability ratios (current year):

a) Gross profit ratio = (Gross profit/sales) × 100 = (Rs. 12,00,000/Rs. 40,00,000) × 100 = 30 per cent

b) Net profit ratio = (Net profit/sales) × 100 = (Rs. 6,76,000/Rs. 40,00,000) × 100 = 16.9 per cent

c) Return on total resources = (EAT + Interest − Tax savings on interest)/Total assets) × 100 = [(Rs.6,76,000 + Rs. 1,60,000 − Rs. 56,000)/Rs. 64,00,000] × 100 = 12.2 per cent

d) Return on capital employed = [(EAT + Interest − Tax savings on interest)/Total assets] × 100 = [(Rs. 6,76,000 + Rs. 1,60,000 − Rs. 56,000)/44,12,000] × 100 = 17.7 per cent

e) Return on equity funds = (Net profit after taxes/Equity funds) × 100 = (Rs. 6,76,000/Rs. 28,12,000) × 100 = 24 per cent.

Note: Ratios (c), (d) and (e) can also be determined by taking average total assets/capital employed/equity funds.

iv) Activity ratios:

a) Debtors turnover = Rs. 40,00,000/Rs. 3,60,000 = 11.1 times

b) Stock turnover = Rs. 28,00,000/Rs. 20,00,000 = 1.4 times

c) Total assets turnover = Rs. 28,00,000/Rs. 64,00,000 = 0.44 times

Comment: The company's position is quite sound from the point of view of liquidity, solvency and profitability. However, its activity ratios, particularly in terms of utilization, do not seem to be satisfactory.

THE END