

Accounting Ratios

Que 1: The following are the information's of A.A. Furniture Mart for the year ended 31st December 2015.

Marks :(3)

Stock on 1.1.2015– Rs. 30,000/-

Stock on 31.12.2015– Rs. 50,000/-

Inventory Turnover Ratio – 8 times

Profit – 25% on cost

Calculate Gross profit for the period.

Ans: For recognizing inventory turnover ratio.

For calculating cost of revenue from operations. 3,20,000/-

For calculating Gross Profit Rs. 80,000/-

Que 2: PMS Info Tech Ltd decide to raise an additional fund of Rs. 10,00,000/- Which source of finance you will suggest to increase the return of shareholders? Substantiate your answer.

Debt Equity Ratio – 0.4 : 1

Shareholder's fund – Rs. 30,00,000/-

Rate of return for the last year – 18%

Marks :(3)

Ans: For explaining low Debt – Equity Ratio reflects more security to lenders.

For suggesting the firm can enjoy the trading on equity advantage by raising additional fund through debt financing with an invest rate below 18% - Say 10%