# Chapter 5 Accounting Ratios

**Question 1**

From the following, compute the current ratio.

| | ₹ |
|---|---|
| Non-Current Investments | 1,00,000 |
| Current Investments | 40,000 |
| Inventories (including loose tools of ₹ 50,000/-) | 2,80,000 |
| **Trade Receivables:** | |
| Sundry Debtors | 1,60,000 |
| Bills Receivables | 20,000 |
| **Trade Payables:** | |
| Sundry Creditors | 1,20,000 |
| Bills Payables | 10,000 |
| Long-term Borrowings | 2,00,000 |
| Short-term Borrowings | 50,000 |
| Short-term Provision (Provision for Tax) | 20,000 |
| Cash and Bank Balance | 30,000 |

**Solution:**

Current Ratio = Current Assets/Current Liabilities

Current Assets = Current Investments + Inventories (Excluding Loose Tools) + Trade Receivables (Sundry Debtors + Bills Receivables) + Cash and Bank Balance

= 40,000 + 2,30,000 + 1,60,000 + 20,000 + 30,000

= ₹. 4,80,000/-

Current Liabilities = Trade Payables (Sundry Creditors + Bills Payables) + Short term Borrowings + Short term Provision (Provision for Tax)

= 1,20,000 + 10,000 + 50,000 + 20,000

= ₹. 2,00,000/-

Current Ratio = 4,80,000/2,00,000 =2 : 4 : 1

**Question 2**

Following particulars are given to you:

| | | ₹ |
|---|---|---|
| Trade Investmests | | 2,50,000 |
| | | |

| | | |
|---|---|---|
| Marketeable Secuities | | 40,000 |
| Tangible Fixed Assets | | 6,00,000 |
| Intangible Assets (Goodwill) | | 1,00,000 |
| Trade Receivables | 2,00,000 | 1,80,000 |
| *Less:* Provision for Doubtful Debts | 20,000 | |
| Cash and Bank Balance | | 80,000 |
| Trade Payables | | 1,20,000 |
| Rent Payables | | 10,000 |
| Dividend Payable | | 30,000 |
| Inventories | | 3,90,000 |
| Long term Borrowings (8% Debentures) | | 2,80,000 |
| Short term Borrowings (Bank Overdraft) | | 25,000 |
| Short term Provisions: | | |
| Provisions for Tax | | 55,000 |
| Income Tax paid in Advance | | 30,000 |

Calculate the Liquidity Ratios.

**Solution:**

Liquidity Ratios include the following 2 ratios. Namely,

- Current ratio
- Quick ratio

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**Solution:**

Liquidity Ratios include the following 2 ratios. Namely,

- Current ratio
- Quick ratio

Current Ratio = Current Assets/Current Liabilities

Current Assets = Marketable Securities + Trade Receivables + Cash and Bank Balance + Inventories + Income Tax paid in advance

= 40,000 + 1,80,000 + 80,000 + 3,90,000 + 30,000

= ₹. 7,20,000/-

Current Liabilities = Trade Payables + Rent Payable + Dividend Payable + Bank Overdraft + Provisions for Tax

= 1,20,000 + 10,000 + 30,000 + 25,000 + 55,000

= ₹. 2,40,000/-

Current Ratio =7,20,000/2,40,000 = 3 : 1

Quick Ratio = Liquid Assetsor Quick Assets/Current Liabilities

Liquid Assets = Current Assets – Inventories – Income Tax Paid in Advance

= 7,20,000 – 3,90,000 – 30,000

= 3,00,000

Quick Ratio =3,00,000/2,40,000 = 1.25 : 1