Financial Reporting – Sem VI B.Com(Hons)- Prof. Radhanath Pyne – Ratio Analysis

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We have nothing to explain about the theories of Ratio Analysis. So we are going direct to solve the problem for completing the Balance Sheet.

Problem 1 (Sheeba Kapil)

Assume that a firm has owner's equity of Rs.1,20,000. The ratios for the firm are as follows

Current debt to total debt	0.40
Total debt to owner's equity	0.60
Fixed assets to owner's equity	0.60
Total asset turnover	2 times
Inventory turnover	8 times

Complete the balance sheet in the following format

Current Debt	xxx	Cash	xxx
Long term debt	xxx	Inventory	xxx
Total Debt	xxx	Total Curr Asst	xxx
Owners Equity	xxx	Fixed assets	xxx
Total Cap	xxx	Total Assets	xxx

Solution 1

i) Total Debt = .60 x 1,20,000 = 72,000

ii) Fixed Assets = .60 x 120000 = 72000

iii) Total capital = Total debt + Owners equity = 72000 + 120000 = 192000

iv) Total Capital = Total Asset = Fixed Asset + Current Assets

1,92,000 = 72000 + Current Assets, So Current Assets = 192000 – 72000 = 120000

v) Sales are calculated as follows

Asset turnover = Sales/ Assets = 2

Sales/192000 = 2 , Sales = 3,84,000

vi) Inventory Turnover = Sales/ Inventory = 3,84,000/Inventory or Inventory = 3,84,000/8 48,000

Cash = Current asset – Inventory = 120000 -48000 = 72000

Current Debt =.4 x total debt = .4 x 72000 = 28800

Long term debt = total debt – current debt = 72000 – 28800 = 43,200

The complete balance sheet will be as under

Current Debt	28800	Cash	72000
Long term debt	43200	Inventory	48000
Total Debt	72000	Tot Curr Asst	120000
Owners Equity	120000	Fixed assets	72000
Total Cap	192000	Total Assets	192000

TN1 If the balance sheet structure is given the indication is given through which we have to proceed for the answer

Problem 2

From the following information prepare the balance sheet where GP = 60000 and Closing stock is 5000 excess of the opening stock

Stock turnover	6
Capital Turnover	2
Fixed asset turnover	4
GP (%)	20
Debt Coll Period (mth)	2
Cr pay period (days)	73

Solution2

i) GP ratio = GP/Sales x 100 or .2 = 60000/sales or Sales = 300000, Cost of Goods sold = 300000 - 60000 = 240000

ii) Stock Turnover = Cost of goods Sold/ Average stock or 6= 240000/Av Stock, Av Stock = 40000

(opening stock + closing)/2 = 40000, (opening + opening +5000)/2 = 40000, opening = 37500, closing = 42500

iii) Capital Turnover Ratio = Cost of Sales/Capital, 2 = 240000/Capital, Capital = 120000

iv) Fixed asset turnover = Cost of Sales/ Fixed Asset, 4 = 240000/fixed assets, fixed assets = 240000/4=60000

v) Debt Collection period = 12/Debtors turnover = 12/2 = DT = 6

debtors = Sales / DT or 300000/6 = 50000

vi) Creditors payment period = 73 days

Creditors turnover ratio = 365/73 = 5

Cost of goods sold = opening stock + Purchase – closing stock

240000 = 37500 + Purchase – closing stock

37500 + Purchase – 42500

240000+42500-37500 = purchase = 245000

Creditor = Credit purchase/Creditor turnover = 245000/5 = 49000

The complete balance sheet will be

Capital	120000	Closing Stock	42500
Creditors	49000	Debtors	50000
		Fixed Asset	60000
		Cash (Balancing fig)	16500
	169000		169000

TN2 The important part of the problem is to find the purchase amount when cost of goods sold is given. Purchase was required to find the sundry creditors.