CHAPTER-5 - Accounting Ratios

Question 1

Current Ratio = Current Assets : Current Liabilities

Current Assets = Current Investments + Inventories (Less: 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

=12 : 5

Question 2

The following ratios are included in Liquidity Ratios-

- Current ratio => Current Asset : Current Liabilities
- Quick ratio => Quick 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/-

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

= 7,20,000 – 3,90,000 – 30,000

= 3,00,000

Therefore,

Current Ratio = 7,20,000 : 2,40,000

= 3: 1

Quick Ratio = 3,00,000 : 2,40,000

= 5 : 4