∴ Debtors = ₹ 3,33,333.

$$\text{Acid test ratio} = \frac{\text{Current Assets - Stock (Quick Asset)}}{\text{Current liabilities}}$$

$$0.75 = \frac{\text{Current Assets - ₹7,00,000}}{\text{₹5,00,000}}$$

∴ Current Assets = ₹10,75,000.

∴ Fixed Assets = Total Assets – Current Assets
= ₹ 15,00,000 – ₹ 10,75,000 = ₹ 4,25,000

Cash and Bank balance = Current Assets – Inventory – Debtors
= ₹ 10,75,000 – ₹ 7,00,000 – ₹ 3,33,333 = ₹ 41,667.

Balance Sheet as on March 31, 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	4,00,000	Plant and Machinery and other Fixed Assets	4,25,000
Reserves & Surplus	6,00,000	**Current Assets:**	
Total Debt:		Inventory	7,00,000
Current liabilities	5,00,000	Debtors	3,33,333
		Cash	41,667
	15,00,000		**15,00,000**

Question 5

MN Limited gives you the following information related for the year ending 31st March, 2016:

1. Current Ratio	2.5
2. Debt-Equity Ratio	1 : 1.5
3. Return on Total Assets (After Tax)	15%
4. Total Assets Turnover Ratio	2
5. Gross Profit Ratio	20%
6. Stock Turnover Ratio	7
7. Current Market Price per Equity Share	₹16
8. Net Working Capital	₹ 4,50,000
9. Fixed Assets	₹ 10,00,000
10. 60,000 Equity Shares of	₹ 10 each
11. 20,000, 9% Preference Shares of	₹ 10 each
12. Opening Stock	₹3,80,000

You are required to calculate:

i. Quick Ratio
ii. Fixed Assets Turnover Ratio
iii. Proprietary Ratio
iv. Earnings per Share
v. Price-Earning Ratio.

Answer :

Working Notes :

1. Net Working Capital = Current Assets – Current Liabilities

= 2.5 – 1=1.5

Thus, Current Assets $= \dfrac{\text{Net Working Capital} \times 2.5}{1.5}$

$= \dfrac{₹4,50,000 \times 2.5}{1.5} = ₹7,50,000$

Current Liabilities = ₹ 7,50,000 – ₹ 4,50,000 = ₹ 3,00,000

2. Sales = Total Assets Turnover × Total Assets

= 2 × (Fixed Assets + Current Assets)

= 2 × (₹ 10,00,000 + ₹ 7,50,000) = ₹ 35,00,000

3. Cost of Goods Sold = 100% – 20%= 80% of Sales

= 80% of ₹ 35,00,000 = ₹ 28,00,000

4. Average Stock $= \dfrac{\text{Cost of Goods Sold}}{\text{Stock Turnover Ratio}}$

$= \dfrac{₹28,00,000}{7} = ₹4,00,000$

Closing Stock = (Average Stock ×2) – Opening Stock

= (₹ 4,00,000 × 2) – ₹ 3,80,000 = ₹ 4,20,000

Quick Assets = Current Assets – Closing Stock

= ₹ 7,50,000 – ₹ 4,20,000 = ₹ 3,30,000

$\dfrac{\text{Debt}}{\text{Equity (here Proprietary fund)}} = \dfrac{1}{1.5}$, Or Proprietary fund = 1.5 Debt.

Total Asset = Proprietary Fund (Equity) + Debt

Or 17,50,000 = 1.5 Debt + Debt

Or Debt $= \dfrac{₹17,50,000}{2.5} = ₹ 7,00,000$

Proprietary fund = 7, 00,000 × 1.5 = ₹ 10,50,000

$$= \frac{₹17,50,000 \times 1.5}{2.5} = ₹10,50,000$$

5. Profit after tax (PAT) = Total Assets × Return on Total Assets

= ₹ 17,50,000 × 15% = ₹ 2,62,500

i. Calculation of Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹3,30,000}{3,00,000} = 1.1:1$$

ii. Calculation of Fixed Assets Turnover Ratio

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Fixed Assets}} = \frac{₹35,00,000}{₹10,00,000} = 3.5$$

iii. Calculation of Proprietary Ratio

$$\text{Proprietary Ratio} = \frac{\text{Proprietary fund}}{\text{Total Assets}}$$

$$= \frac{₹10,50,000}{₹17,50,000} = 0.6 : 1$$

iv. Calculation of Earnings per Equity Share (EPS)

$$\text{Earnings per Equity Share (EPS)} = \frac{\text{PAT - Preference Share Dividend}}{\text{Number of Equity Shares}}$$

$$= \frac{₹2,62,500 - ₹18,000 \text{ (9\% of } 2,00,000)}{60,000}$$

= ₹ 4.075 per share

v. Calculation of Price-Earnings Ratio (P/E Ratio)

$$\text{P/E Ratio} = \frac{\text{Market Price of Equity Share}}{\text{EPS}} = \frac{₹16}{₹4.075} = 3.926$$