

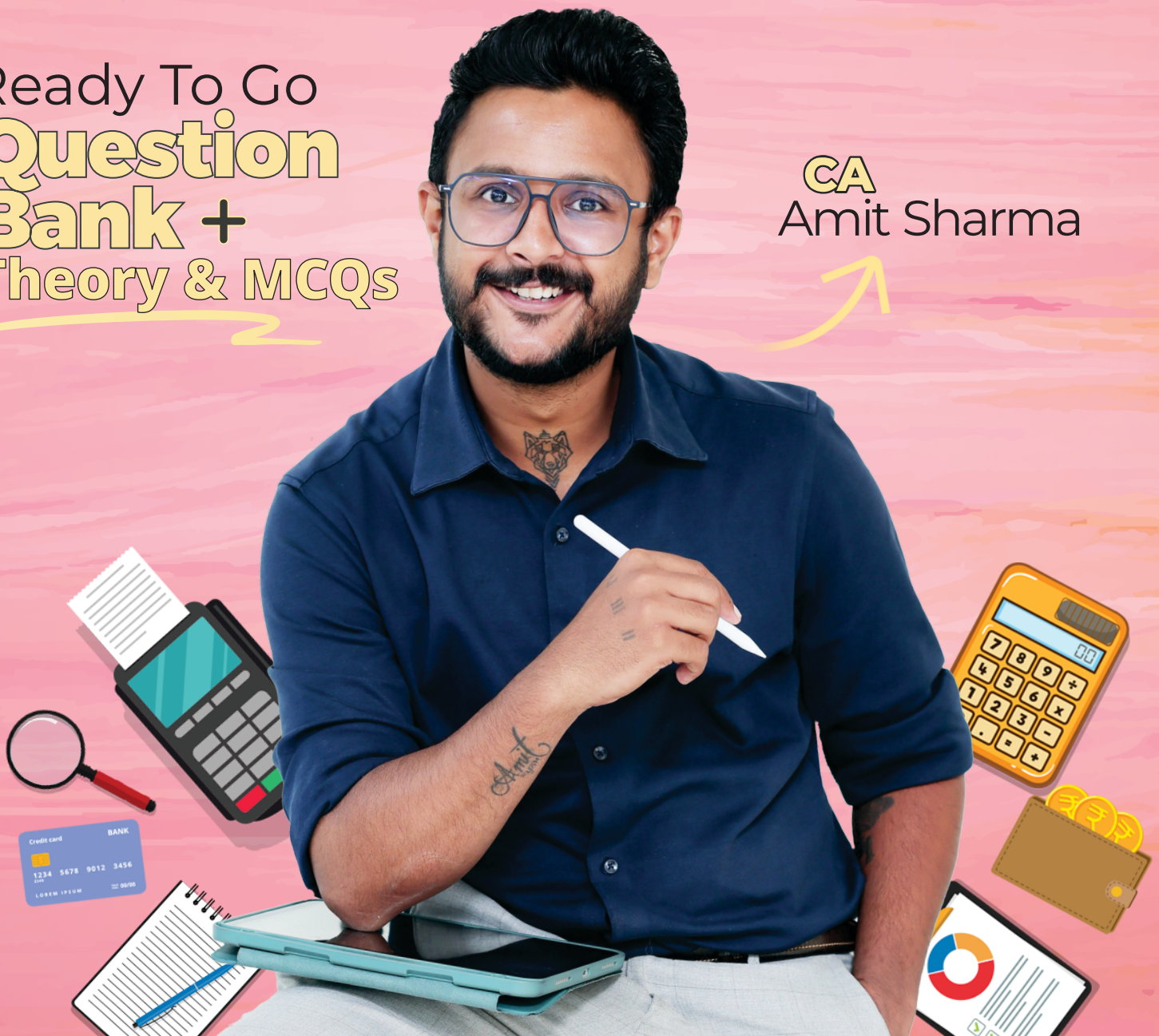
CA Inter Financial Management

Version 5

JAN/MAY/SEPT 27

Ready To Go
**Question
Bank +**
Theory & MCQs

CA
Amit Sharma



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CA AMIT SHARMA



1 CHAPTER

RATIO ANALYSIS

Q.1

Basic Ratio Calculation



PYQ M18, N18, M19, S24

The following is the information of XML Ltd. relate to the year ended 31-03-2018 : Gross Profit 20% of Sales

Net Profit	10% of Sales
Inventory Holding period	3 months
Receivable collection period	3 months
Non-Current Assets to Sales	1 : 4
Non-Current Assets to Current Assets	1 : 2
Current Ratio	2 : 1
Non-Current Liabilities to Current Liabilities	1 : 1
Share Capital to Reserve and Surplus	4 : 1
Non-current Assets as on 31st March, 2017	₹ 50,00,000

Assume that:

- No change in Non-Current Assets during the year 2017-18
- No depreciation charged on Non-Current Assets during the year 2017-18.
- Ignoring Tax

You are required to Calculate cost of goods sold, Net profit, Inventory, Receivables and Cash for the year ended on 31st March, 2018

Ans.

Workings

$$\frac{\text{Non Current Assets}}{\text{Current Assets}} = \frac{1}{2}$$

$$\text{Or } \frac{50,00,000}{\text{Current Assets}} = \frac{1}{2}$$

$$\text{So, Current Assets} = ₹ 1,00,00,000$$

Now further,

$$\frac{\text{Non Current Assets}}{\text{Sales}} = \frac{1}{4}$$

$$\text{Or } \frac{50,00,000}{\text{Sales}} = \frac{1}{4}$$

$$\text{So, Sales} = ₹ 2,00,00,000$$

Calculation of Cost of Goods sold, Net profit, Inventory, Receivables and Cash:

- Cost of Goods Sold (COGS):

$$\begin{aligned} \text{Cost of Goods Sold} &= \text{Sales} - \text{Gross Profit} \\ &= ₹ 2,00,00,000 - 20\% \text{ of } ₹ 2,00,00,000 \\ &= ₹ 1,60,00,000 \end{aligned}$$

- Net Profit = 10% of Sales = 10% of ₹ 2,00,00,000
= ₹ 20,00,000

- Inventory:

$$\text{Inventory Holding Period} = \frac{12 \text{ Months}}{\text{Inventory Turnover Ratio}}$$





$$\text{Inventory Turnover Ratio} = 12 / 3 = 4$$

$$4 = \frac{\text{COGS}}{\text{Average Inventory}}$$

$$4 = \frac{1,60,00,000}{\text{Average Inventory}}$$

Average or Closing Inventory = ₹ 40,00,000

(iv) Receivables :

$$\text{Receivable Collection Period} = \frac{12 \text{ Months}}{\text{Receivables Turnover Ratio}}$$

$$\text{Or Receivables Turnover Ratio} = 12 / 3 = 4 = \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}}$$

$$\text{Or } 4 = \frac{2,00,00,000}{\text{Average Accounts Receivable}}$$

So, Average Accounts Receivable/Receivables = ₹ 50,00,000/-

(v) Cash:

Cash* = Current Assets* - Inventory - Receivables

Cash = ₹ 1,00,00,000 - ₹ 40,00,000 - ₹ 50,00,000

= ₹ 10,00,000

(it is assumed that no other current assets are included in the Current Asset)

Q.2

Basic Ratio Calculation



PYQ N20, N22, MTP N19

Following information relates to RM Co. Ltd.

	(₹)
Total Assets employed	10,00,000
Direct Cost	5,50,000
Other Operating Cost	90,000

Goods are sold to the customers at 150% of direct costs.

50% of the assets being financed by borrowed capital at an interest cost of 8% per annum. Tax rate is 30%.

You are required to calculate :

- Net profit margin
- Return on Assets
- Asset turnover
- Return on owners' equity

Ans.

Computation of net profit:

Particulars	(₹)
Sales (150% of ₹ 5,50,000)	8,25,000
Direct Costs	5,50,000
Gross profit	2,75,000
Other Operating Costs	90,000
Operating profit (EBIT)	1,85,000
Interest charges (8% of ₹ 5,00,000)	40,000
Profit before taxes (EBT)	1,45,000
Taxes (@ 30%)	43,500
Net profit after taxes (EAT)	1,01,500





- (i) Net profit margin (After tax) = $\frac{\text{Profit after taxes}}{\text{Sales}} = \frac{1,01,500}{8,25,000} = 0.12303$ or 12.303%
- Net profit margin (Before tax) = $\frac{\text{Profit before taxes}}{\text{Sales}} = \frac{1,45,000}{8,25,000} = 0.17576$ or 17.576%
- (ii) Return on assets = $\frac{\text{EBIT (1 - T)}}{\text{Total Assets}} = \frac{1,85,000(1 - 0.3)}{10,00,000} = 0.1295$ or 12.95%
- (iii) Asset turnover = $\frac{\text{Sales}}{\text{Assets}} = \frac{8,25,000}{10,00,000} = 0.825$ times
- (iv) Return on owner's equity = $\frac{\text{Profit after taxes}}{\text{Owner's equity}} = \frac{1,01,500}{50\% \times 10,00,000} = 0.203$ or 20.3%

Q.3

Basic Ratio Calculation



PYQ N19, J21, J25, MTP M19(2), M21(2), M22(1)

From the following information, complete the Balance Sheet given below:

- (i) Equity Share Capital : ₹ 2,00,000
- (ii) Total debt to owner's equity : 0.75
- (iii) Total Assets turnover : 2 times
- (iv) Inventory turnover : 8 times
- (v) Fixed Assets to owner's equity : 0.60
- (vi) Current debt to total debt : 0.40

Balance Sheet of XYZ Co. as on March 31, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Shares Capital	2,00,000	Fixed Assets	?
Long term Debt	?	Current Assets:	
Current Debt	?	Inventory	?
		Cash	?

Ans.

Balance Sheet of XYZ Co. as on March 31, 2020

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	2,00,000	Fixed Assets	1,20,000
Long-term Debt	90,000	Current Assets:	
Current Debt	60,000	Inventory	87,500
		Cash (balancing figure)	1,42,500
	3,50,000		3,50,000

Working Notes

- Total Debt = $0.75 \times \text{Equity Share Capital} = 0.75 \times ₹ 2,00,000 = ₹ 1,50,000$
Further, Current Debt to Total Debt = 0.40.
So, Current Debt = $0.40 \times ₹ 1,50,000 = ₹ 60,000$
Long term Debt = $₹ 1,50,000 - ₹ 60,000 = ₹ 90,000$
- Fixed Assets = $0.60 \times \text{Equity Share Capital} = 0.60 \times ₹ 2,00,000 = ₹ 1,20,000$
- Total Assets to Turnover = 2 times; Inventory Turnover = 8 times
Hence, Inventory / Total Assets = $2/8 = 1/4$
Further, Total Assets = $₹ 2,00,000 + ₹ 1,50,000 = ₹ 3,50,000$
Therefore, Inventory = $₹ 3,50,000 / 4 = ₹ 87,500$
Cash in Hand = Total Assets - Fixed Assets - Inventory
= $₹ 3,50,000 - ₹ 1,20,000 - ₹ 87,500 = ₹ 1,42,500$





Q.4

Basic Ratio Calculation



PYQ D21, M25

Following are the data in respect of ABC Industries for the year ended 31 st March, 2021:

Debt to Total assets ratio	:	0.40
Long-term debts to equity ratio	:	30%
Gross profit margin on sales	:	20%
Accounts receivables period	:	36 days
Quick ratio	:	0.9
Inventory holding period	:	55 days
Cost of goods sold	:	₹ 64,00,000

Liabilities	₹	Assets	₹
Equity Share Capital	20,00,000	Fixed assets	
Reserves & surplus		Inventories	
Long-term debts		Accounts receivable	
Accounts payable		Cash	
Total	50,00,000	Total	

Required:

Complete the Balance Sheet of ABC Industries as on 31st March, 2021. All calculations should be in nearest Rupee. Assume 360 days in a year.

Ans.

Working Notes:

- (1) Total liability = Total Assets = ₹ 50,00,000
 Debt to Total Asset Ratio = 0.40
 $\frac{\text{Debt}}{\text{Total Assets}} = 0.40$
 Or, $\frac{\text{Debt}}{50,00,000} = 0.40$
 So, **Debt** = 20,00,000
- (2) Total Liabilities = ₹ 50,00,000
 Equity share Capital + Reserves + Debt = ₹ 50,00,000
 So, Reserves = ₹ 50,00,000 - ₹ 20,00,000 - ₹ 20,00,000
 So, **Reserves & Surplus** = ₹ 10,00,000
- (3) $\frac{\text{Long term Debt}}{\text{Equity Shareholders' Fund}} = 30\%^*$
 $\frac{\text{Long term Debt}}{(20,00,000 + 10,00,000)} = 30\%^*$
Long Term Debt = ₹ 9,00,000
- (4) So, Accounts Payable = ₹ 20,00,000 - ₹ 9,00,000
Accounts Payable = ₹ 11,00,000
- (5) Gross Profit to sales = 20%
 Cost of Goods Sold = 80% of Sales = ₹ 64,00,000
 Sales = $\frac{100}{80} \times 64,00,000 = 80,00,000$
- (6) Inventory Turnover = $\frac{360}{55}$



$$\frac{\text{COGS}}{\text{Closing inventory}} = \frac{360}{55}$$

$$\frac{64,00,000}{\text{Closing inventory}} = \frac{360}{55}$$

$$\text{Closing inventory} = 9,77,778$$

(7) Accounts Receivable period = 36 days

$$\frac{\text{Accounts Receivable}}{\text{Credit sales}} \times 360 = 36$$

$$\text{Accounts Receivable} = \frac{36}{360} \times \text{credit sales}$$

$$= \frac{36}{360} \times 80,00,000 \text{ (assumed all sales are on credit)}$$

$$\text{Accounts Receivable} = ₹ 8,00,000$$

(8) Quick Ratio = 0.9

$$\frac{\text{Quick Assets}}{\text{Current liabilities}} = 0.9$$

$$\frac{\text{Cash + Debtors}}{11,00,000} = 0.9$$

$$\text{Cash} + 8,00,000 = ₹ 9,90,000$$

$$\text{Cash} = ₹ 1,90,000$$

(9) Fixed Assets = Total Assets - Current Assets = 50,00,000 - (9,77,778 + 8,00,000 + 1,90,000) = 30,32,222

Balance Sheet of ABC Industries as on 31st March 2021

Liabilities	(₹)	Assets	(₹)
Share Capital	20,00,000	Fixed Assets	30,32,222
Reserved surplus	10,00,000	Current Assets:	
Long Term Debt	9,00,000	Inventory	9,77,778
Accounts Payable	11,00,000	Accounts Receivables	8,00,000
		Cash	1,90,000
Total	50,00,000	Total	50,00,000

(*Note: Equity shareholders' fund represent equity in 'Long term debts to equity ratio'. The question can be solved assuming only share capital as 'equity')

Q.5

Basic Ratio Calculation



PYQ M22

Following information and ratios are given for W Limited for the year ended 31st March, 2022:

Equity Share Capital of ₹ 10 each	₹ 10 lakhs
Reserves & Surplus to Shareholders' Fund	0.50
Sales / Shareholders' Fund	1.50
Current Ratio	2.50
Debtors Turnover Ratio	6.00
Stock Velocity	2 Months
Gross Profit Ratio	20%
Net Working Capital Turnover Ratio	2.50

You are required to calculate:





- (i) Shareholders' Fund
- (ii) Stock
- (iii) Debtors
- (iv) Current liabilities
- (v) Cash Balance.

Ans.**(i) Calculation of Shareholders' Fund:**

$$\frac{\text{Reserve \& Surplus}}{\text{Shareholders' Funds}} = 0.5$$

$$\frac{\text{Reserve \& Surplus}}{\text{Equity Share Capital + Reserve \& Surplus}} = 0.5$$

$$\frac{\text{Reserve \& Surplus}}{10,00,000 + \text{Reserve \& Surplus}} = 0.5$$

$$\text{Reserve \& Surplus} = 5,00,000 + 0.5 \text{ Reserve \& Surplus}$$

$$0.5 \text{ Reserve \& Surplus} = 5,00,000$$

$$\text{Reserve \& Surplus} = 10,00,000$$

$$\text{Shareholders' funds} = 10,00,000 + 10,00,000$$

$$\text{Shareholders' funds} = ₹ 20,00,000$$

(ii) Calculation of Value of Stock:

$$\frac{\text{Sales}}{\text{Shareholders' Funds}} = 1.5$$

$$\text{Sales} = 1.5 \times 20,00,000$$

$$\text{Sales} = 30,00,000$$

$$\text{Gross Profit} = 30,00,000 \times 20\% = 6,00,000$$

$$\begin{aligned} \text{Cost of Goods Sold} &= 30,00,000 - 6,00,000 \\ &= ₹ 24,00,000 \end{aligned}$$

$$\text{Stock velocity} = 2 \text{ months}$$

$$\frac{\text{Average Stock}}{\text{Cost of Goods Sold}} \times 12 = 2$$

$$\frac{\text{Average Stock}}{24,00,000} \times 12 = 2$$

$$\text{Average Stock} = 24,00,000 \times \frac{2}{12}$$

$$\text{Average stock} = ₹ 4,00,000$$

(iii) Calculation of Debtors:

$$\text{Debtors Turnover Ratio} = 6$$

$$\frac{\text{Sales}}{\text{Average Debtor}} = 6$$

$$\frac{30,00,000}{\text{Average Debtor}} = 6$$

$$\text{Average Debtors} = ₹ 5,00,000$$

(iv) Calculation of Current Liabilities:

$$\text{Net Working Capital Turnover ratio} = 2.5$$

$$\frac{\text{Sales}}{\text{Current Assets} - \text{Current Liabilities}} = 2.5$$

$$\frac{30,00,000}{\text{Current Assets} - \text{Current Liabilities}} = 2.5$$





Current Assets - Current Liabilities = 12,00,000 (1)

Current Ratio = 2.5

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = 2.5$$

Current Assets = 2.5 Current Liabilities(2)

From (1) & (2),

2.5 Current Liabilities - Current Liabilities = 12,00,000

1.5 Current Liabilities = 12,00,000

Current Liabilities = ₹ 8,00,000

(v) Calculation of Cash Balance:

Current Assets = 2.5 Current Liabilities

Current Assets = 2.5 (8,00,000)	= 20,00,000
(-) Debtors	(5,00,000)
(-) Stock	(4,00,000)
Cash Balance	₹ 11,00,000

Q.6

B/Sheet prepare



PYQ M23, RTP N21, S25, M26, MTP M19(1), M25(2)

Following information and ratios are given in respect of AQUA Ltd. for the year ended 31st March, 2023:

Current ratio	4.0
Acid test ratio	2.5
Inventory turnover ratio (based on sales)	6
Average collection period (days)	70
Earnings per share	₹ 3.5
Current liabilities	₹ 3,10,000
Total assets turnover ratio (based on sales)	0.96
Cash ratio	0.43
Proprietary ratio	0.48
Total equity dividend	₹ 1,75,000
Equity dividend coverage ratio	1.60

Assume 360 days in a year.

You are required to complete Balance Sheet as on 31st March, 2023.

Balance Sheet as on 31st March, 2023.

Liabilities	₹	Assets	₹
Equity share capital (₹10 per share)	XXX	Fixed assets	XXX
Reserves & surplus	XXX	Inventory	XXX
Long-term debt	XXX	Debtors	XXX
Current liabilities	3,10,000	Loans & advances	XXX
		Cash & bank	XXX
Total	XXX	Total	XXX

Ans.

(i) Current Ratio = 4

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = 4$$

$$\frac{\text{Current Assets}}{3,10,000} = 4$$





Current Assets = ₹ 12,40,000

- (ii) Acid Test Ratio = 2.5
$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}} = 2.5$$
$$\frac{12,40,000 - \text{Inventory}}{3,10,000} = 2.5$$
$$12,40,000 - \text{Inventory} = ₹ 7,75,000$$
$$\text{Inventory} = ₹ 4,65,000$$
- (iii) Inventory Turnover Ratio (on Sales) = 6
$$\frac{\text{Sales}}{\text{Inventory}} = 6$$
$$\frac{\text{Sales}}{4,65,000} = 6$$
$$\text{Sales} = ₹ 27,90,000$$
- (iv) Debtors Collection Period = 70 days
$$(\text{Debtors} / \text{sales}) \times 360 = 70$$
$$(\text{Debtors} / 27,90,000) \times 360 = 70$$
$$\text{Debtors} = ₹ 5,42,500$$
- (v) Total Assets Turnover Ratio (on Sales) = 0.96
$$\frac{\text{Sales}}{\text{Total Assets}} = 0.96$$
$$\frac{27,90,000}{\text{Total Assets}} = 0.96$$
$$\text{Total Assets} = ₹ 29,06,250$$
- (vi) Fixed Assets (FA) = Total Assets - Current Assets
$$= 29,06,250 - 12,40,000$$
$$\text{Fixed Assets} = ₹ 16,66,250$$
- (vii) Cash Ratio =
$$\frac{\text{Cash}}{\text{Current Liabilities}} = 0.43$$
$$\frac{\text{Cash}}{3,10,000} = 0.43$$
$$\text{Cash} = ₹ 1,33,300$$
- (viii) Proprietary Ratio =
$$\frac{\text{Proprietary Fund}}{\text{Total Assets}} = 0.48$$
$$\frac{\text{Proprietary Fund}}{29,06,250} = 0.48$$
$$\text{Proprietary Fund} = ₹ 13,95,000$$
- (ix) Equity Dividend Coverage Ratio = 1.6 or
$$\frac{\text{EPS}}{\text{DPS}} = \frac{3.5}{\text{DPS}}$$
$$\text{DPS} = ₹ 2.1875$$
$$\text{DPS} = \frac{\text{Total Dividend}}{\text{Number of Equity Shares}}$$



$$2.1875 = \frac{1,75,000}{\text{Number of Equity Shares}}$$

$$\text{Number of Equity Shares} = 80,000$$

$$\text{Equity Share Capital} = 80,000 \times 10 = ₹ 8,00,000$$

$$\text{Reserves \& Surplus} = 13,95,000 - 8,00,000 = ₹ 5,95,000$$

(x) $\text{Loans and Advances} = \text{Current Assets} - (\text{Inventory} + \text{Receivables} + \text{Cash \& Bank})$
 $= ₹ 12,40,000 - (₹ 4,65,000 + 5,42,500 + 1,33,300) = ₹ 99,200$

Balance Sheet as on 31st March 2023

Liabilities	₹	Assets	₹
Equity Share Capital (₹ 10 per share)	8,00,000	Fixed Assets	16,66,250
Reserves & Surplus	5,95,000	Inventory	4,65,000
Long-term debt *(B/F)	12,01,250	Receivables	5,42,500
Current Liabilities	3,10,000	Loans & Advances	99,200
		Cash & Bank	1,33,300
Total	29,06,250	Total	29,06,250

Q.7

Debtors + B/R Calculation



MTP N18(2), J26(2)

Following information relate to a concern:

Debtors Velocity	3 months
Credits Velocity	2 months
Stock Turnover Ratio	1.5
Gross Profit Ratio	25%
Bills Receivables	₹ 25,000
Bills Payables	₹ 10,000
Gross Profit	₹ 4,00,000
Fixed Assets to turnover Ratio	4

Closing stock of the period is ₹ 10,000 above the opening stock. **CALCULATE**

- Sales and cost of goods sold
- Sundry Debtors
- Sundry Creditors
- Closing Stock
- Fixed Assets

Ans.

(i) **Determination of Sales and Cost of goods sold:**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\text{Or, } \frac{25}{100} = \frac{4,00,000}{\text{Sales}}$$

$$\text{Or, Sales} = \frac{4,00,000}{25} = ₹ 16,00,000$$

$$\begin{aligned} \text{Cost of Goods Sold} &= \text{Sales} - \text{Gross Profit} \\ &= ₹ 16,00,000 - ₹ 4,00,000 = ₹ 12,00,000 \end{aligned}$$

(ii) **Determination of Sundry Debtors:**





Debtors velocity is 3 months or Debtors' collection period is 3 months,

$$\text{So, Debtors' turnover ratio} = \frac{12\text{months}}{3\text{months}} = 4$$

$$\begin{aligned}\text{Debtors' turnover ratio} &= \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}} \\ &= \frac{\text{Rs. } 16,00,000}{\text{Bills Receivable} + \text{Sundry Debtors}} = 4\end{aligned}$$

Or, Sundry Debtors + Bills receivable = ₹ 4,00,000

Sundry Debtors = ₹ 4,00,000 - ₹ 25,000 = ₹ 3,75,000

(iii) Determination of Sundry Creditors:

Creditors velocity of 2 months or credit payment period is 2 months.

$$\text{So, Creditors' turnover ratio} = \frac{12\text{months}}{2\text{months}} = 6$$

$$\begin{aligned}\text{Creditors turnover ratio} &= \frac{\text{Credit Purchases}^*}{\text{Average Accounts Payables}} \\ &= \frac{\text{Rs. } 12,10,000}{\text{Sundry Creditors} + \text{Bills Payables}} = 6\end{aligned}$$

So, Sundry Creditors + Bills Payable = ₹ 2,01,667

Or, Sundry Creditors + ₹ 10,000 = ₹ 2,01,667

Or, Sundry Creditors = ₹ 2,01,667 - ₹ 10,000 = ₹ 1,91,667

(iv) Closing Stock

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = \frac{\text{Rs. } 12,00,000}{\text{Average Stock}} = 1.5$$

So, Average Stock = ₹ 8,00,000

$$\text{Now Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

$$\text{Or } \frac{\text{Opening Stock} + (\text{Opening Stock} + \text{Rs. } 10,000)}{2} = ₹ 8,00,000$$

Or, Opening Stock = ₹ 7,95,000

So, Closing Stock = ₹ 7,95,000 + ₹ 10,000 = ₹ 8,05,000

(v) Calculation of Fixed Assets

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Fixed Assets}} = 4$$

$$\text{Or, } \frac{12,00,000}{\text{Fixed Assets}} = 4$$

Or, Fixed Asset = ₹ 3,00,000

Workings:

***Calculation of Credit purchases:**

Cost of goods sold = Opening stock + Purchases - Closing stock

₹ 12,00,000 = ₹ 7,95,000 + Purchases - ₹ 8,05,000

₹ 12,00,000 + ₹ 10,000 = Purchases ₹ 12,10,000 = Purchases (credit).

Assumption:



CA Inter. Financial Management Question Bank



Clear COST-FM-SM with Amit Sharma

- ◆ Cleared All levels of CA in First Attempt.
- ◆ Secured AIR 30 in CA Inter.
- ◆ Articleship from one of the Big 4s (KPMG) & awarded with best performance on the first project.
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