CHAPTER : 3

1) You are given the following ratios of AXE Ltd. And you are also given the industry averages:

	Ratios considered	AXE Ltd.	Industry Average
(i)	Current ratio	2.67 : 1	2.40 :1
(ii)	Liquid ratio	1 : 1	1.2 : 1
(iii)	Debtors turnover ratio	10	8
(iv)	Inventory turnover ratio	3.33	9.80
(v)	Total asset turnover ratio	1.43	2.00
(vi)	Net Profit margin	2.1%	3.3%
(vii)	Return on total assets	3%	6.6%
(viii)	Return on net worth	4.8%	10.7%
(ix)	Total Debts/total assets	37.7%	63.5%

Using the given ratios indicate the company's strengths and weaknesses. vis a vis the industry.

2) A company has a current ratio of 2.5 : 1 and a liquid ratio of 1.5 : 1. Current liabilities are Rs. 1,00,000. Give the effect of each of the following transactions on each of there ratios. Treat each transaction separately.

a) Purchase of material Rs. 50,000 on credit.
b) Sale of goods Rs. 1,00,000 on credit.
c) Purchase of machinery worth Rs.1,00,000, by making cheque payment of Rs.25,000 and balance by long-term bank loan.
d) Mr. Hrithik accepts a bill for Rs. 40,000 due from him for purchase of goods on credit.

Also calculate the amount of closing stock.

3) Presented below is the financial information of two companies X and Y belonging to the same industry.

Particulars	X	Y
Current Ratio	3.2 : 1	2 : 1
Acid Test Ratio	1.7 : 1	1.1 : 1
Debt Equity Ratio	30%	40%
Interest Coverage Ratio (times)	6	5

Assume that you are a loan officer of a bank and both the companies have requested for a loan of equal amount to be repaid over the next two years.

Interpreting the meaning of each of these ratios, advise your management.

a) If you could grant a loan to only one company which will it be?
b) If you would grant a loan to both the companies would you be willing to do so?

4) The following data is available from the records of A Ltd. and B Ltd., both in the same industry for the year ended 31st march 2003.

	A Ltd. Rs. in ‘000	**B Ltd. Rs. in ‘000**
Assets:		
Plant and Machinery	3,390	4,800
Stock	2,460	1,900
Debtors	660	1,260
Cash	420	640
	6,930	8,600
Liabilities:		
Equity Share Capital	2,200	3,500
Retained Earnings	1,930	1,000
10% Debentures	1,000	2,000
Sundry Creditors	1,800	2,100
	6,930	8,600
Sales	11,200	16,400
Cost of Goods Sold	8,000	12,900
Other Operating Expenses	1,600	1,720
Interest expenses	100	200
Income tax	750	790
Dividend	200	360

You are required to answer the following questions by making a comparison of one or more, relevant ratios:

a) Which company is better able to meet its current debts?
b) Which company collects its receivables faster, assuming all sales are credit sales?
c) Which company is using shareholders’ money more profitably?
d) If you were to purchase the debentures of one company, which company’s debentures would you buy?
e) Which company retains the larger proportion of income in the business?
f) How long does it take each company to convert an investment in stock to cash?

5) M / s. Sona Chandi Heera Ltd. is stock Exchange listed Company making goods profits every year. However the board of directors are very conservative and has declared dividend at fixed rate of Rs.25 for last five years. The last bonus issue was made six years ago. The salary packages are also not attractive. As a result there is a high turnover of employees and low volume of company’s shares on bourses. The young members of the directors family and darling of shareholders so as to make it: most valued one. What steps you would suggest to achieve these objectives?

6) The current assets of the company are Rs.2,70,000, Current ratio is 1.80:1 but liquid ratio is 0.40:1. The company firmly believes in its own funds and hence has not availed of any credit facilities from banks. Since the borrowing costs have come down drastically, the company now wishes to approach bankers for financial assistance. And before going to them it wants its current ratio and liquid ratio, in particular, to be at par with Standard Ratios and other Ratios within acceptable limits. The company wants you to find out probable reasons for having low ratios and also wants your advice on how to improve them. You are required to prepare a brief report on the above issues.

7) Find out the missing figures in the following income Statement and Balance Sheet of M / s. Anil Starch Ltd. for the year ended 31-3-2004 and re-write statements.

Income Statement

Sales	Rs. ?
Cost of Sales	Rs. ?
Gross Profit	Rs. ?
Overheads	Rs. ?
Net Profit	Rs. ?

Balance Sheet as at 31-3-2004

Share Capital	5,00,000	Fixed Assets	?
General Reserve	3,00,000	Stock	?
Loans	?	Debtors	?
Sundry Creditors	6,00,000	Bank Balance	?
		Cash	?
Rs.	?	Rs.	?

Additional Information:

1) Debt Equity Ratio 1.25 : 1.00
2) Gross Profit Ratio 30%
3) Net Profit 20% of Gross Profit.
4) Total Assets Turnover ratio 2
5) Average collection period 1 month
6) Liquid Ratio 1:1
7) Current Ratio 2:1
8) Bank balance is 7 times the cash in hand.

8) Capital gearing ratio is 25% which of the following transaction would:
(a) Improve (b) Reduce (c) Not alter, the capital gearing ratio.
State with reasons, consider each transaction separately.

i. Redemption of redeemable debentures.
ii. Issue of preference share capital.
iii. Obtained long-term loan from financial institution.
iv. Repayment of term loan.
v. Conversation of convertible preference shares into equity share capital.

vi. Issue of Bonus Shares out of General Reserves.
vii. Conversation of partly paid equity shares into fully paid shares out of General Reserves.
viii. Conversation of convertible debentures into equity share capital.
ix. Issue of debentures.

9) Money Manager Ltd. has projected following figures to Access Bank for procuring Working Capital finance

	2001	2002	2003	2004	2005	2006	2007
1. Current Ratio							
Money Managers Ltd.	2.0	2.0	2.5	2.2	2.0	2.5	2.0
Industry Average	1.8	1.8	2.0	2.0	2.5	2.5	2.5
2. Debt equity Ratio							
Money Managers ltd.	1.8	1.8	1.6	1.6	1.5	1.5	1.2
Industry Average	1.5	1.5	1.8	1.8	1.8	1.6	1.8
3. Return Investment							
Money Managers ltd	20	20	18	18	15	15	18
Industry Average.	18	18	20	20	18	18	18

10) At the of the interview, the Director of the company hands over to you the printed copy of the audited statement of account, and asks you to ascertain atleast three of such Ratios which could help you to take decision in joining that Company as an Executive. Present a suitable reply.

11) A Businessman has been very disappointed to find that the result for the current year has been substantially lower than that of immediately preceding year. He approaches you to know from you what exactly went wrong. Without going into actual figures, you want to present before the probable causes for lower profit on the basis of Ratio Analysis. Prepare a brief report to him dealing with at least three of such ratios.

12) Satyam failure in USA, Economic slow down in Europe and stock market metal down in Asia have their root cost in SUB PRIME CRISIS. The SUB PRIME crisis Erose because of "landing without knowing". In the light of the above enlist the issue involve in formulating sound credit policy.

13) The Capital of R Ltd. consist of 9% preference shares of Rs.10 each Rs. 3,00,000 Equity share of Rs. 10 each, Rs. 8 lacs. The profit after Tax is Rs. 2,70,000 Equity Dividend is 20% and market Price of Equity Shares Rs.40/- You are required to calculate following ratios and comment on them, a) Dividend Yield, b) Preference & Equity Dividend Cover, (c) Earnings Per Share and d) Price-Earnings Ratio.