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Management Accounts

B. Com part III

Chapter Ratio Analysis

Numerical exercise (32) S.K. Singh

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Question.

Calculate debtors turnover Ratio from the following:

Total sales for the year - 6,00,000  
credit sales : 70% of Total sales  
sales Return ( $\frac{1}{5}$ th out of credit sales) 25,000  
opening debtors - 36,625  
Closing debtors 43,375

Ans.

Debtor's turnover Ratio =  $\frac{\text{Net credit sales}}{\text{Revenue from operations}}$   
 $\frac{\text{Average debtors}}{\text{Average debtors}}$

Average debtor =  $\frac{\text{opening debtors} + \text{closing debtors}}{2}$

$$= \frac{36,625 + 43,375}{2} = \frac{80,000}{2} = 40,000$$

Credit Sales = 70% of total sales.

$$= \frac{600,000 \times 70}{100} = 4,20,000$$

(-) Sales - Return  
$$\frac{25,000 \times 4}{5} = 20,000$$

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4,00,000

Hence Debtors Turnover Ratio =

$$\frac{4,00,000}{40,000} = 10 \text{ Times}$$

Ans

Question - compute debtor Turnover Ratio and Average Collection Period from the followings

net credit sales = 27,00,000  
4,20,000  
30,000

debtors -  
B/R -

Ans.

$$\text{Debtor Turnover Ratio} = \frac{\text{Net credit sales}}{\text{Average Trade Receivable.}}$$

$$= \frac{42000 + 30000}{45000} = 4.50000$$

$$\therefore \text{Debtor Turnover Ratio} = \frac{270000}{45000}$$

$$= 6 \text{ Times}$$

$$\text{Average Collection Period} = \frac{\text{No of days in a year}}{\text{Debtor Turnover Ratio}}$$

Trade Receivable  
or  
Debtor Turnover  
Ratio.

$$= \frac{365}{6} = 60.83 \text{ days}$$

or 61 days  
approximately.