

12.8.20

Management Account  
B. Com Part III

chapter - Ratio Analysis, Numerical

Exercise - (21) S.K. Singh

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Question:

Find out Interest Coverage Ratio

Net Profit After Int & Tax. 60,000

Rate of Income Tax 40%

10% Mortgage loan - 1,00,000

10% Debenture - 1,00,000

Ans.

Interest Coverage Ratio =  $\frac{\text{Net Profit before Int \& Tax}}{\text{Interest on long term debts}}$

Interest on 10% Debenture Rs -  $\frac{1,00,000 \times 10}{100}$

= 10,000

Int on Mortgage loan  
 $\frac{1,00,000 \times 10}{100}$

= 10,000

$\frac{20,000}{\text{Total Interest}}$

Net Profit after Interest & Tax = 60,000 given

Rate of Income Tax 40%

Therefore, Net Profit before Tax =

$$\frac{60000 \times 100}{100 - 40}$$

$$= \frac{60000 \times 100}{60} = 1,00,000$$

Net Profit before Int & Tax =

$$1,00,000 + \text{Interest}$$

$$1,00,000 + 20,000 = 1,20,000$$

$$\text{Now Int Coverage Ratio} = \frac{1,20,000}{20,000}$$

$$= 6 \text{ Times Ans}$$