

ACCOUNTANCY

Accounting Ratios

MULTIPLE CHOICE QUESTIONS

1) A transaction involving a decrease in Debt-Equity Ratio and increase in Current Ratio is

- (a) Issue of Debentures against the purchase of fixed assets
- (b) Issue of Debentures for cash
- (c) Redemption of Preference Shares for cash
- (d) Issue of Equity Shares for cash

2) Current Ratio is 2:1. On the sale of fixed asset (Book value Rs20,000 for Rs18,000, state whether the current ratio will

- (a) Improve
- (b) Decline
- (c) Not Change
- (d) Can't say

3) Young India Ltd. has a operating Profit ratio of 20%. To maintain this ratio at 25%, management may

- (a) Increase selling price of stock-in-trade
- (b) Reduce cost of Revenue from Operations
- (c) Increase Selling price of Stock-in-trade and to reduce cost of Revenue from Operations
- (d) All of the above

4) A transaction involving a decrease in both Current ratio and quick ratio is

- (a) Sale of Non-Current Asset for cash
- (b) Sale of Stock-in-Trade at loss
- (c) Cash payment of a current liability
- (d) Purchase of stock-in-trade on credit.

5) If opening inventory is Rs1,20,000. Cost of Revenue from operations is Rs10,00,000 and inventory turnover ratio is 5 times, then Closing inventory will be

- (a) Rs3,20,000
- (b) Rs2,80,000
- (c) Rs1,60,000
- (d) Rs4,00,000

6) Non-current assets of a firm are Rs26,00,000, Current Assets are Rs9,00,000 and Shareholder's Funds are Rs21,50,000. Total debts of the firm will be

- (a) Rs43,50,000
- (b) Rs13,50,000
- (c) Rs21,50,000
- (d) Rs38,50,000

7) If Current Ratio of the firm is 2.5:1 and its Current Liabilities are Rs2,00,000. Its working capital will be

- (a) Rs3,00,000
- (b) Rs3,75,000

ACCOUNTANCY

Accounting Ratios

(c) Rs4,00,000

(d) Rs7,00,000

8) Sincere Ltd. has a proprietary ratio of 25%. To maintain this ratio at 30%, management may

(a) Increase Equity

(b) Reduce Debt

(c) Either Increase Equity or Reduce Debt

(d) Increase Current Assets

9) Working Capital is Rs7,20,000; Trade Payables Rs40,000; Other Current Liabilities Rs2,00,000; Calculate Current Ratio.

(a) 3:1

(b) 4:1

(c) 5:1

(d) 7:1

10) Current Assets are Rs4,00,000; Inventories Rs2,00,000; Working Capital Rs2,40,000, calculate Current Ratio

(a) 2.5:1

(b) 1:1

(c) 2:1

(d) 1:2

11) Which ratio is not a part of Solvency Ratio?

(a) Current Ratio

(b) Debt to Equity Ratio

(c) Total Assets to Debt Ratio

(d) Proprietary Ratio

12) If Total Assets are Rs1,25,000, Total Debts, i.e., external debts are Rs1,00,000 and Current liabilities are Rs50,000, Debt-Equity Ratio will be

(a) 1:1

(b) 1:2

(c) 2:1

(d) None of these

13) From the following, which ratio is not a part of Activity Ratio:

(a) Inventory Turnover Ratio

(b) Trade Receivable Turnover Ratio

(c) Working Capital Turnover Ratio

(d) Debt to Equity Ratio

14) If Credit Revenue from Operations is Rs7,00,000, Cash Revenue from Operations is Rs1,00,000. Cost of Revenue from Operations is Rs6,40,000, then Gross Profit Ratio will be

(a) 15%

ACCOUNTANCY

Accounting Ratios

- (b) 18%
- (c) 25%
- (d) 20%

15) If Revenue from Operations is Rs1,60,000 and Gross Profit is Rs40,000, Gross Profit ratio will be

- (a) 30%
- (b) 25%
- (c) 40%
- (d) 50%

16) From the following, which formula is correct for computing Operating Ratio

- (a) $\frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$
- (b) $\frac{\text{Revenue from Operations}}{\text{Operating Cost}} \times 100$
- (c) $\frac{\text{Operating Cost}}{\text{Cost of Revenue from Operations}} \times 100$
- (d) $\frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$

17) Revenue from Operations Rs9,00,000, Gross Profit 25% on cost, Operating Expenses Rs90,000, Operating Ratio will be

- (a) 100%
- (b) 50%
- (c) 90%
- (d) 10%

18) Calculate Operating Profit Ratio if Revenue from Operations is Rs5,00,000, Operating Profit is Rs75,000.

- (a) 25%
- (b) 12%
- (c) 13.3%
- (d) 15%

19) From the following, which ratio is not a part of Profitability Ratio.

- (a) Proprietary Ratio
- (b) Gross Profit Ratio
- (c) Operating Ratio
- (d) Net Profit Ratio

20) From the following information, calculate Proprietary Ratio: Share Capital Rs5,00,000, Non-Current Assets Rs22,00,000, Reserves and Surplus Rs3,00,000, Current Assets Rs10,00,000.

ACCOUNTANCY

Accounting Ratios

- (a) 100%
- (b) 70%
- (c) 40%
- (d) 25%

21) The two measures of operational efficiency of a company are

- (a) Inventory Turnover Ratio and Working Capital Turnover Ratio
- (b) Liquid Ratio and Operating Ratio
- (c) Liquid Ratio and Current Ratio
- (d) Gross Profit Margin and Net Profit Margin

22) A transaction involving an increase in Current ratio but no change in Working Capital

- (a) Purchase of goods on credit
- (b) Cash payment of Non-current liability
- (c) Payment to a Trade creditor
- (d) Sale of Fixed Assets for cash

23) A transaction involving decrease in Current ratio and an increase in Quick ratio

- (a) Purchase of Stock-in-Trade for Cash
- (b) Sale of Non-Current Assets for Cash
- (c) Sale of Stock-in-Trade at loss
- (d) Cash Payment of Non-current Liability

24) A transaction involving increase in both current Ratio and Quick Ratio

- (a) Purchase of Stock-in-trade on credit
- (b) Sale of Stock at loss
- (c) Cash payment of Non-current liability
- (d) Sale of Non-current asset for cash

25) Name the aggregate of shareholder's funds and Total Debts

- (a) Total Debts
- (b) Capital Employed
- (c) Total Assets
- (d) Non-Current Assets

26) Name the difference between Capital Employed and Non-Current Liabilities

- (a) Shareholder's Funds
- (b) Capital Employed
- (c) Total Debts
- (d) Total Assets

ACCOUNTANCY

Accounting Ratios

Fill in the blanks

- (i) Liquidity Ratios measure _____ solvency of the enterprise.
- (ii) _____ and stores and spares are not considered in computing Current Ratio.
- (iii) Debit balance in surplus, i.e., Balance in statement of Profit and Loss is deducted to calculate _____ while calculating Debt to Equity Ratio.
- (iv) Solvency Ratios measure _____
- (v) Activity Ratios are also called _____
- (vi) It is an objective of _____ to measure proportion of fixed assets financed by the Shareholder's Funds.
- (vii) $\text{Gross Profit} + \text{Other Income} - \text{_____} = \text{Net Profit}$.
- (viii) Trade payable is sum total of Creditors and _____
- (ix) _____ and Operating Profit Ratio are complimentary to each other.
- (x) _____ Turnover ratio establishes the number of times amount invested in trade receivables is turned over in a year in relation to Revenue from Operations.

True/False

- 1) Gross Profit helps in fixing selling prices and assessing efficiency of trading activities
- 2) Current Ratio is a part of Activity Ratio
- 3) Price level changes are ignored in ratio analysis. It is an advantages of Ratio analysis
- 4) Interest Coverage Ratio shows the amount of profit available to cover the interest
- 5) Loose tools and stores and spares are excluded to calculate working capital while calculating working capital turnover ratio
- 6) In debt to Total Assets Ratio, debt includes only long-term Borrowings and Long-term Provisions
- 7) The objective of calculating proprietary ratio is to measure proportion of fixed assets financed by the shareholder's funds
- 8) Debit balance in Surplus, i.e., Balance in Statement of Profit and Loss is not deducted to calculate Shareholder's Funds while calculating Debt-Equity Ratio.
- 9) Quick ratio establishes the relationship between current assets and current liabilities

Short Questions (2-3) lines

Q1: What is meant by Accounting Ratio?

Q2: What is meant by Ratio analysis?

Q3: Explain the advantages of ratio analysis.

Q4: What are the categories under which various ratios are grouped?

Q5: What is meant by Liquidity?

Q6: Name the ratios that indicates the liquidity of an enterprise?

Q7: What is the Quick Ratio?

ACCOUNTANCY

Accounting Ratios

Q8:What is meant by Current ratio?

Q9:Enumerate the formula of Current ratio.

Q10:Difference between Current Ratio and Quick Ratio

Q11: Describe the method of calculation of Quick Ratio.

Q12:What is the ideal Current Ratio?

Q13: What is the ideal Quick Ratio?

Q14:What is meant by current assets?

Q15: What is meant by Current liabilities?

Q16: What is meant by Liquid Assets?

Q17:Describe the significance of Quick ratio.

Q18:"Stock and prepaid expenses are not liquid assets". Why? Give reasons.

Q20: What is meant by Solvency?

Q21:List the important solvency ratio.

Q22:What is meant by Debt-Equity Ratio.

Q23: Describe the method of calculating the Debt-Equity Ratio.

Q24:What is meant by Proprietary Ratio.

Q25: What does Debt-Equity Ratio Shows?

Q26: What is meant by Total Assets to Debt Ratio?

Q27: What does Total Assets to Debt Ratio Shows?

Q28:Describe the formula for calculating the Proprietary Ratio.

Q29: What does a low Proprietary ratio represent?

Q30:What is meant by Activity ratios?

Q31:Name the important Activity Ratios.

Q32:How do you compute 'Stock-Turnover Ratio'? What does it indicates?

Q33:What is Fixed Assets Turnover Ratio?

Q34: Explain the Significance of Fixed Assets Turnover Ratio.

Q35:What is meant by Debtors Turnover Ratio?

Q36: How Debtors Turnover Ratio is calculated?

Q37: What is Working Capital Turnover Ratio?

Q38: Explain the Significance of Working Capital Turnover Ratio.

Q39: What does a Low working Capital Turnover Ratio indicate?

Q40:Describe the objective of Debtors Turnover ratio

Q41:What is meant by Current Asset Turnover Ratio? Explain its significance.

Q42:What is Creditor Turnover Ratio? Explain its significance.

Q43:What is meant by Profitability?

Q44:Name the important profitability ratios.

Q45:What is meant by Gross Profit Ratio? How it is calculated?

ACCOUNTANCY

Accounting Ratios

- Q46:** What is meant by Net Profit Ratio? Explain its significance.
- Q47:** What is meant by Dividend per share Ratio? How it is calculated?
- Q48:** What is Earning per share? Explain its significance.
- Q49:** What is Operating Ratio? How it is calculated?
- Q50:** What is Return on Investment Ratio? Explain its significance.
- Q51:** What is the objective of computing dividend per share ratio?
- Q52:** What is Price Earning ratio? How it is computed?
- Q53:** Why we compute Price Earning Ratio?
- Q54:-** What is Operating Cost?
- Q55:-** What is measured by Liquidity Ratios?
- Q56:-** Why are inventories not considered as Quick Assets?
- Q57:-** What is the meaning of 'Investment' for the purpose of 'Return on investment' ratio?
- Q58:-** What will be the Operating Profit Ratio, if Operating Ratio is 88.94%?
- Q59:-** What are Trade investments?
- Q60** State how personal bias can get reflected in ratio analysis.
- Q61)** State any two limitations of ratio analysis.
- Q62** What is measured by Liquidity Ratios?
- Q63** Assuming that current ratio is 2:1, state giving reason whether the ratio will improve, decline or will have no change in case a Bills Receivable is dishonoured.
- Q64** Inventory turnover ratio of a company is 3 times. State, giving reason, whether the ratio improves, declines or does not change because of increase in the value of closing stock by Rs.5,000
- Q65** Trade receivables turnover ratio of a company is 6 times. State with reason whether the ratio will improve, decrease or not change due to increase in the value of closing inventory (stock) by Rs.50,000
- Q66** What is meant by trade investments?