CHAPTER : 10

ACCOUNTING RATIOS

STUDY NOTES

- **Meaning of ratio:**
  - A ratio is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage and a number of times.
  - Accounting ratios represent relationship between two accounting variables taken from financial statements.
- **Objectives of ratio:**
  - To know the areas of the business which need more attention.
  - To know about the potential areas which can be improved.
  - To provide a deeper analysis of the profitability, liquidity, solvency and efficiency levels in the business.
  - To provide information for making cross-sectional analysis by comparing the performance with the best industry standards and
  - To provide information derived from financial statements useful for making projections and estimates for the future.
- **Advantages of Ratio Analysis**
  - Helps to understand efficacy of decisions.
  - Helpful in comparative analysis.
  - Enables SWOT analysis.
  - Simplify complex figures and establish relationships.
  - Identification of problem areas.
  - Helps in various comparisons.
- **Limitations of ratios:**
  - **Means and not the End:** Ratios are means to an end rather than the end by itself.
  - **Lack of ability to resolve problems:** Their role is essentially indicative and of whistle blowing and not providing a solution to the problem.
  - **Lack of standardized definitions:** There is a lack of standardised definitions of various concepts used in ratio analysis. For example, there is no standard definition of liquid liabilities.
  - **Lack of universally accepted standard levels:** There is no universal yardstick which specifies the level of ideal ratios.
  - **Ratios based on unrelated figures:** A ratio calculated for unrelated figures would essentially be a meaningless exercise.
- **Types of ratios:**
  - **Liquidity Ratios:**

    (a) **Current Ratio** = Current Assets / Current Liabilities

    Current Assets = Current investments+ Inventories + Trade receivables + Cash and cash equivalents + Short term loans and advances

    Current Liabilities = Current liabilities include short-term borrowings, trade payables (creditors and bills payables), other current liabilities and short-term provisions.

    Ideal Ratio is 2:1:

(b) **Quick Ratio** = Quick Assets/Current Liabilities

Quick Assets = Current assets – (Inventories + Prepaid Expenses)

- **Solvency Ratios:**

(a) **Debt Equity Ratio** = Long term Debts/Shareholders' Funds

Shareholders' Funds (Equity) =Equity Share capital + Preference share capital + Reserves and Surplus +Money received against share warrants or

Shareholders' Funds (Equity) = Non-current Assets + Working capital –Non-current liabilities Working Capital = Current Assets – Current Liabilities

(b) **Total Asset to Debt Ratio** = Total Assets/Total Debts

Total Debts = Non Current Liabilities + Current Liabilities

Total Assets = Non Current Assets + Current Assets.

(c) **Proprietary Ratio** = Shareholders' Funds/Total assets

Shareholders' Funds (Equity) = Equity Share capital + Preference share capital + Reserves and Surplus + Money received against share warrants

Total Assets = Non Current Assets + Current Assets.

(d) **Interest Coverage Ratio** = Net Profit before Interest and Tax/Interest on long-term debts

3. Activity or turnover Ratios:

(a) **Inventory Turnover Ratio** = Cost of Revenue from Operations/Average Inventory

Cost of Revenue from Operations = Opening Inventory + Purchases (Net) + Direct Expense.- Closing Inventory OR

Cost of Revenue from Operations = Revenue from Operations - Gross Profit

Average Inventory = (Opening Inventory + Closing Inventory)/2

(b) **Trade receivable Turnover:** = Net Credit Revenue from Operations/Average Trade Receivable

Average Trade Receivable = (Opening Debtors & Bills Receivable + Closing Debtors & Bills Receivable)/2

(c) **Average collection period** = Number of days or Months/Trade receivables turnover ratio

(d) **Trade payable Turnover;** = Net Credit purchases/Average trade payable

Average Trade Payable = (Opening Creditors & Bills Payable + Closing Creditors & Bills Payable)/2

(e) **Average Payment Period** = Number of days/month in a year/Trade Payables Turnover Ratio

(f) **Capital Employed Turnover ratio** = Revenue from Operation/Capital Employed

(g) Fixed Assets Turnover Ratio = Net Revenue from Operation/Net Fixed Assets

(h) Working Capital Turnover Ratio: Net Revenue from Operation/Working Capital

- **Profitability Ratios**

(a) **Gross profit ratio** = Gross Profit/Net Revenue from Operations ×100

Gross Profit=Net Revenue from Operations - Cost of Revenue from Operations

(b) **Operating ratio** = (Cost of RFO + Operating Expenses)/ Net Revenue from Operations ×100

(c) **Operating profit ratio** = 100 % – Operating Ratio

Operating Profit Ratio = Operating Profit/ Revenue from Operations × 100

Operating Profit = Revenue from Operations – Operating Cost

(d) **Net profit ratio** = Net profit/Revenue from Operations × 100

(e) **Return on Investment or Return on Capital Employed** = PBIT/Capital Employed × 100

(f) **Return on Shareholders' Fund** = Profit after Tax/Shareholders' Funds × 100

(g) **Earnings Per Share** = Profit available for equity shareholders/Number of Equity Shares

(h) **Book Value per share** = Equity shareholders' funds/Number of Equity Shares

(i) **Dividend Payout Ratio** = Dividend per share/Earnings per share

(j) **Price Earnings Ratio** = Market Price of a share/Earnings per share.

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

1. Credit Purchases ₹6,00,000; Trade Payables Turnover Ratio 5; Calculate closing creditors, if closing creditors are ₹10,000 less than opening credito ₹

(a) ₹1,15,000 (b) ₹1,25,000 (c) ₹1,30,000 (d) ₹1,10,000

2. Quick Assets do not include ________.

(a) Cash in hand (b) Prepaid Expenses (c) Marketable Securities (d) Trade Receivables

3. Drasti Ltd. has inventory of ₹ 20,000. Total liquid assets are ₹ 1,00,000 and quick ratio is 2 : 1. Current ratio would be ________.

(a) 2.4:1 (b) 2:1 (c) 1:2 (d) 1:1

4. Debt-equity ratio = ____________. If Total Assets ₹ 20,00,000; Current Liabilities ₹ 6,00,000; Total Debts ₹ 12,00,000.

(a) 0.75:1 (b) 1:1 (c) 2:1 (d) 0.60:1

5. A Company has a loan of ₹ 2,00,000 as a part of its capital employed. The interest payable on Loan is 15% and ROI of the company is 25%. The Rate of Income tax is 40%. What is the gain to the share holders due to the Loan raised by the company?

(a) 8,000 (b) 30,000 (c) 12,000 (d) 50,000

6. Cost of revenue from operations ₹6,00,000; Inventory Turnover Ratio 5; Find out the value of opening inventory, if opening inventory is ₹8,000 less than the closing inventory.

(a) 1,12,000 (b) 1,16,000 (c) 1,28,000 (d) 1,24,000

7. Revenue from Operations ₹6,00,000; Gross Profit 20%; Office Expenses ₹ 30,000; Selling Expenses ₹ 48,000. Operating ratio = ____________.

(a) 80% (b) 85% (c) 96.33% (d) 93%

8. Revenue from Operations ₹8,00,000; Gross Profit Ratio 25%; Opening Inventory ₹1,00,000; Closing Inventory ₹60,000. Inventory Turnover Ratio will be :

(a) 10 Times (b) 7.5 Times (c) 8 Times (d) 12.5 Times

9. Purchases ₹7,20,000; Office Expenses ₹30,000; Selling Expenses ₹90,000; Opening Inventory ₹ 1,40,000; Closing Inventory ₹80,000; Revenue from Operations ₹ 12,00,000. Operating ratio will be ____________.

(a) 60% (b) 75% (c) 70% (d) 65%

10. Revenue from Operations ₹2,00,000; Inventory Turnover Ratio 5; Gross Profit 25%. Find out the value of Closing Inventory, if Closing Inventory is ₹8,000 more than the Opening Inventory.

(a) 38,000 (b) 22,000 (c) 34,000 (d) 26,000

11. If average inventory is ₹50,000 and closing inventory is ₹2,000 less than the opening inventory, opening and closing inventory will be :

(a) ₹52,000 and ₹50,000 (b) ₹50,000 and ₹48,000

(c) ₹48,000 and ₹46,000 (d) ₹51,000 and ₹49,000

12. Equity Share Capital ₹20,00,000; Reserve 5,00,000; Debentures ₹10,00,000; Current Liabilities ₹8,00,000. Debt-equity ratio will be :

(a) 4 ; 1 (b) 32 : 1 (c) 72 : 1 (d) 5 : 1

13. Operating ratio is ____________.

(a) Cost of revenue from operations + Selling Expenses / Net revenue from operations

(b) Cost of production + Operating Expenses / Net revenue from operations

(c) Cost of revenue from operations + Operating Expenses / Net Revenue from Operations

(d) Cost of Production / Net revenue from operations.

14. Revenue from operations is ₹1,80,000; Rate of Gross Profit is 25% on cost. The amount of Gross Profit would be ₹ ____________.

(a) ₹45,000 (b) ₹36,000 (c) ₹40,000 (d) ₹60,000

15. What will be the amount of Gross Profit, if revenue from operations are ₹ 6,00,000 and Gross Profit Ratio is 20% of cost?

(a) ₹1,50,000 (b) ₹1,00,000 (c) ₹1,20,000 (d) ₹5,00,000

16. Company's Gross Profit Ratio will be ____________ if Net Profit ₹ 40,000; Office Expenses ₹ 20,000; Selling Expenses ₹36,000; Total revenue from operations ₹ 6,00,000.

(a) 16% (b) 20% (c) 6.67% (d) 12.5%

17. Total Revenue from Operations ₹15,00,000; Cost of Revenue from Operations ₹ 9,00,000 and Operating Expenses ₹2,25,000. Operating ratio would be ________.

(a) 75% (b) 25% (c) 60% (d) 15%

18. If credit revenue from operations is ₹3,60,000, cash revenue from operations is ₹70,000, Cost of reverse from operations is ₹ 3,61,200, its gross profit ratio will be?

(a) 11%. (b) 23.2% (c) 18% (d) 20%

19. Cost of Revenue from Operations = ________________.

(a) Revenue from Operations – Net Profit

(b) Revenue from Operations – Gross Profit

(c) Revenue from Operations – Closing Inventory

(d) Purchases – Closing Inventory

20. Cash Revenue from Operations ₹4,00,000; Credit Revenue, from Operations ₹ 21,00,000; Revenue from Operations Return ₹1,00,000; Cost of revenue from operations ₹ 19,20,000. Gross Profit ratio will be______________.

(a) 4% (b) 23.2% (c) 80% (d) 20%

21. Current Assets ₹5,00,000; Current Liabilities ₹1,00,000; Revenue from Operations ₹28,00,000. Working Capital turnover Ratio will be______________.

(a) 7 times (b) 5.6 times (c) 8 times (d) 10 times

22. If sales is ₹73,00,000 and Cost of revenue from operations is ₹58,40,000, Gross profit ratio will be :

(a) 20% (b) 25% (c) 15% (d) 10%

23. Credit Purchases ₹9,60,000; Cash Purchases ₹6,40,000; Creditors ₹2,40,000; Bills Payable ₹80,000. Average Payment Period will be ___________.

(a) 3 months (b) 4 months (c) 2.4 months (d) 6 months

24. Credit revenue from operations ₹6,00,000; Cash revenue from operations ₹1,50,000; Debtors ₹1,00,000; Bills receivable ₹50,000. Average Collection Period will be ______.

(a) 2 Months (b) 2.4 Months (c) 3 Months (d) 1.6 Months

25. Credit Purchases ₹12,00,000; Opening Creditors ₹2,00,000; Closing Creditors ₹1,00,000. Trade Payables Turnover Ratio will be ______________.

(a) 6 times (b) 4 times (c) 8 times (d) 12 times

26. Credit revenue from operations ₹5,60,000; Debtors ₹70,000; Bills receivable ₹10,000. Average Collection Period will be ______________

(a) 52 Days (b) 53 Days (c) 45 Days (d) 46 Days

27. Credit revenue from operations ₹3,00,000. Trade Receivables Turnover Ratio 5 times; Calculate Closing Debtors, if closing debtors are two times in comparison to Opening Debtors.

(a) ₹40,000 (b) ₹60,000 (c) ₹ 80,000 (d) ₹1,20,000

28. Current ratio = 4.5:1, quick ratio = 3:1, Inventory is ₹36,000. What will be the current assets?

(a) 1,08,000 (b) 24,000 (c) 54,000 (d) 36,000

29. Calculate Debt-Equity Ratio of a Company if:

Equity Share Capital ₹5,00,000; General Reserve ₹3,20,000; Preliminary Expenses ₹20,000; Debentures ₹3,20,000; Current Liabilities ₹80,000.

(a) 1 : 2 (b) 2 : 1 (c) 4 : 1 (d) 7 : 1

30. Opening Inventory ₹1,00,000; Closing Inventory ₹1,20,000; Purchases ₹20,00,000; Wages ₹2,40,000; Carriage Inwards ₹1,50,000; Selling Expense ₹60,000; Revenue from Operations ₹30,00,000. Gross Profit ratio will be ___________.

(a) 29% (b) 26% (c) 19% (d) 21%

31. Opening Inventory ₹75,000; Closing Inventory ₹1,05,000; Inventory Turnover Ratio 6; Gross Profit 20% on cost; what will be Gross Profit?

(a) ₹1,35,000 (b) ₹1,08,000 (c) ₹90,000 (d) ₹18,000

32. Current liabilities of a company are ₹5,60,000 current ratio is 5:2 and quick ratio is 2:1. Find the value of the stock.

(a) 5,60,000 (b) 2,80,000 (c) 1,40,000 (d) 12,00,000

33. A firm makes credit revenue from operations of ₹2,40,000 during the year. If the trade receivables turnover ratio is 8 times, calculate closing debtors, if the closing debtors are more by ₹6,000 than the opening debtors :

(a) ₹33,000 (b) ₹36,000 (c) ₹24,000 (d) ₹27,000

34. __________ratios are a measure of the speed with which various accounts are converted into sales or cash.

(a) Activity (b) Liquidity (c) Debt (d) Profitability

35. Current assets of a company are ₹ 5,00,000. Current ratio is 2.5 : 1 and quick ratio is 1:1. Calculate the value of current liabilities.

(a) 2,00,000 (b) 5,00,000 (c) 3,00,000 (d) 2,50,000

36. __________are especially interested in the average payment period, since it provides them with a sense of the bill-paying patterns of the firm.

(a) Customers (b) Stockholders

(c) Lenders and suppliers (d) Borrowers and buyers

37. Credit revenue from operations ₹24,00,000; Trade Receivables Turnover Ratio 6 times; Opening Debtors ₹3,20,000. Closing Debtors will be :

(a) ₹4,00,000 (b) ₹4,80,000 (c) ₹80,000 (d) ₹7,20,000

38. Total revenue from operations ₹9,00,000; Cash revenue from operations ₹3,00,000; Debtors ₹1,00,000; B/R ₹20,000. Trade Receivables Turnover Ratio will be :

(a) 5 Times (b) 6 Times (c) 7.5 Times (d) 9 Times

39. Calculate Stock Turnover Ratio if Opening Stock is ₹ 76,250, Closing Stock is 98,500, Sales is ₹ 5,20,000, Sales Return is ₹20,000, Purchase is ₹ 3,22,250.

(a) 3.43 times (b) 4.34 times (c) 2 times (d) 4.5 times

40. Opening Inventory ₹40,000; Purchase ₹4,00,000; Purchase Return ₹12,000, what will be Inventory turnover ratio if Closing Inventory is less than Opening Inventory by ₹8,000?

(a) 9 Times (b) 10.78 Times (c) 11 Times (d) 8.82 Times

41. Total credit revenue from operations of a firm is ₹5,40,000. Average collection period is 3 months. Opening debtors are ₹1,10,000. Its closing debtors will be ___________.
   (a) ₹1,35,000 (b) ₹1,60,000 (c) ₹2,20,000 (d) ₹1,80,000

42. Current Ratio = _______________.
   (a) Solvency Ratio (b) Liquidity Ratio
   (c) Activity Ratio (d) Profitability Ratio

43. Average Inventory ₹60,000; Inventory Turnover Ratio 8; Gross Profit 20% on revenue from operations; what will be Gross Profit?
   (a) ₹1,20,000 (b) ₹96,000 (c) ₹80,000 (d) ₹15,000

44. If sales is ₹74,20,000; Sales returns is ₹1,00,000 and Cost of revenue from operations is ₹ 65,70,000, Gross profit ratio will be :
   (a) 20% (b) 25% (c) 15% (d) 10%

45. The balance sheet of X ltd shows; Equity share capital ₹ 15,00,000 Reserve and Surplus ₹ 7, 50,000 Total Assets ₹ 45,00,000. Proprietary Ratio =_________
   (a) 50% (b) 33.3% (c) 200% (d) 60%

46. Debt equity ratio of a company is 1:2. Which of the following transactions will increase debt equity ratio?
   (a) Issue of new shares for cash (b) Redemption of Debentures
   (c) Issue of Debentures for cash (d) Goods purchased on credit

47. Satisfactory ratio between Long-term Debts and Shareholder's Funds is
   (a) 1 : 1 (b) 3 : 1 (c) 1 : 2 (d) 2 : 1

48. On the basis of following data, the proprietary ratio of a Company will be___________.
   Equity Share Capital ₹6,00,000; Debentures ₹2,40,000; Statement of Profit & Loss Debit Balance ₹40,000.
   (a) 74% (b) 65% (c) 82% (d) 70%

49. Cost of Goods Sold is 11,50,000; Operating expenses are ₹60,000. Sales is ₹2,60,000 and Sales Return is ₹10,000. Calculate Operating Ratio.
   (a) 84 % (b) 42 % (c) 21 % (d) 10 %

50. On the basis of following information received from a firm, Proprietary Ratio will be :
   Fixed Assets ₹3,30,000; Current Assets ₹1,90,000; Preliminary Expenses ₹30,000; Equity Share Capital ₹2,44,000; Preference Share Capital ₹1,70,000; Reserve Fund ₹58,000.
   (a) 70% (b) 80% (c) 85% (d) 90%

51. On the basis of the following data, a Company's Total Assets-Debt Ratio will be: Working Capital ₹2,70,000; Current Liabilities ₹30,000; Fixed Assets ₹4,00,000; Debentures ₹2,00,000; Long Term Bank Loan ₹80,000.
   (a) 37% (b) 40% (c) 45% (d) 70%

52. What will be the amount of Gross Profit, if revenue from operations is ₹6,00,000 and Gross Profit Ratio 20% of revenue from operations?
   (a) ₹1,50,000 (b) ₹1,00,000 (c) ₹1,20,000 (d) ₹5,00,000

53. On the basis of the following data, the liquid ratio of a company will be : Current Ratio 5 : 3; Current Liabilities ₹75,000 and Inventory ₹25,000
   (a) 1 : 1 (b) 2:1.8 (c) 3 : 2 (d) 4 : 3

54. Opening Inventory ₹1,00,000; Closing Inventory ₹1,50,000; Purchases ₹6,00,000; Carriage ₹25,000; Wages ₹2,00,000. Inventory Turnover Ratio will be :
   (a) 6.6 Times (b) 7.4 Times (c) 7 Times (d) 6.2 Times

55. What will be the cost of revenue from operations by a company if Opening Inventory ₹70,000; Closing Inventory ₹80,000 and Inventory Turnover Ratio 6 Times.
   (a) 1,50,000 (b) 90,000 (c) 4,50,000 (d) 4,80,000

56. Inventory Turnover Ratio = ____________.
   (a) Average Inventory/Revenue from Operations
   (b) Average Inventory/Cost of Revenue from Operations
   (c) Cost of Revenue from Operations/Average Inventory
   (d) Gross Profit./Average Inventory

57. Total revenue from operations ₹27,00,000; Credit revenue from operations ₹18,00,000; Opening Debtors ₹3,20,000; Closing Debtors ₹4,00,000; Provision for Doubtful Debts ₹60,000. Trade Receivables Turnover Ratio will be :
   (a) 7.5 times (b) 9 times (c) 6 times (d) 5 times

58. Opening Inventory of a firm is ₹80,000. Cost of revenue from operations is ₹ 6,00,000. Inventory Turnover Ratio is 5 times. Its closing Inventory will be:
   (a) 1,60,000 (b) 1,20,000 (c) 80,000 (d) 2,00,000

59. Current Assets do not include :
   (a) Prepaid Expenses (b) Inventory
   (c) Goodwill (d) Bills Receivable

60. Debt-Equity Ratio will be____________ if Equity Share Capital ₹5,80,000; Reserve Fund ₹4,30,000; Preliminary Expenses ₹40,000; Long term Debts ₹1,28,900; Debentures ₹2,30,000.
   (a) 42 : 1 (b) 53 : 1 (c) 63 : 1 (d) 37 : 1

61. If the inventory turnover ratio is divided into 365, it becomes a measure of
   (a) Sales efficiency (b) Average Age of Inventory
   (c) Sales Turnover (d) Average Collection Period

62. Opening Inventory ₹50,000; Closing Inventory ₹40,000 and cost of revenue from operations ₹7, 20,000. What will be Inventory Turnover Ratio?
   (a) 18 Times (b) 16 Times (c) 14.4 Times (d) 8 Times

63. Which of the following transactions will not improve the quick ratio?
   (a) Sale of goods for cash
   (b) Sale of goods on credit
   (c) Issue of new shares for cash
   (d) Conversion of debentures into equity shares

64. Liquid Assets ₹3,70,000; Inventory ₹80,000; Current Liabilities ₹1,50,000; Cost of revenue from operations ₹7,50,000. Based on these data, what will be the working Capital Turnover Ratio of a company?
   (a) 2.5 Times (b) 3 Times (c) 5 Times (d) 3.8 Times

65. Total Assets ₹ 7,70,000; Total Liabilities ₹ 2,60,000; Current Liabilities ₹ 40,000, Total Assets to Debt Ratio is:
   (a) 3.5 : 1 (b) 2.56 : 1 (c) 2.8 : 1 (d) 3 : 1

66. Proprietary Ratio indicates the relationship between Proprietor's Funds and
   (a) Long-Term Debts (b) Short Term & Long Term Debts
   (c) Total Assets (d) Debentures

67. Current Ratio = ____________
   (a) Liquid Assets/Current Assets (b) Fixed Assets/Current Assets
   (c) Current Assets/Current Liabilities (d) Liquid Assets/Current Liabilities

68. What will be Total Assets-Debt Ratio if Working Capital ₹3,20,000; Current Liabilities ₹1,40,000; Fixed Assets ₹2,60,000; Debentures ₹2,10,000; Long Term Bank Debt ₹78,000.
   (a) 40% (b) 60% (c) 30% (d) 70%

69. Liquid Assets do not include :
   (a) Bills Receivable (b) Debtors
   (c) Inventory (d) Bank Balance

70. Ideal Current Ratio is :

(a) 1 : 1 (b) 1 : 2 (c) 1 : 3 (d) 2 : 1

71. Working Capital is the :

(a) Cash and Bank Balance
(b) Capital borrowed from the Banks
(c) Difference between Current Assets and Current Liabilities
(d) Difference between Current Assets and Fixed Assets

72. Determine stock turnover ratio if, Opening stock is ₹31,000, Closing stock is ₹29,000, Sales is ₹3,20,000 and Gross profit ratio is 25% on sales.

(a) 31 times (b) 11 times (c) 8 times (d) 32 times

73. Current assets include only those assets which are expected to be realised within

(a) three months (b) six months (c) one year (d) two years

74. Total Purchases ₹4,50,000; Cash Purchases ₹1,50,000; Creditors ₹50,000; Bills Payable ₹10,000. Trade Payables Turnover Ratio will be ______________.

(a) 7.5 times (b) 6 times (c) 9 times (d) 5 times

75. The ______________of a business firm is measured by its ability to satisfy its short term obligations as they become due.

(a) Activity (b) Liquidity (c) Debt (d) Profitability

76. Ideal Quick Ratio is

(a) 1 : 1 (b) 1 : 2 (c) 1 : 3 (d) 2 : 1

77. Current Ratio is 3.5 : 1. Working Capital is ₹ 90,000. Calculate the amount of Current Assets and Current Liabilities

(a) Current Asset = ₹1,26,000; Current Liability = ₹26,000
(b) Current Asset = ₹1,16,000; Current Liability = ₹36,000
(c) Current Asset = ₹1,26,000; Current Liability = ₹36,000
(d) Current Asset = ₹1,36,000; Current Liability = ₹16,000

78. Quick Ratio is also known as :

(a) Liquid Ratio (b) Current Ratio
(c) Working Capital Ratio (d) Cash ratio

79. A Company's liquid assets are ₹10,00,000 and its current liabilities are ₹8,00,000. Subsequently, it purchased goods for ₹1,00,000 on credit. Quick ratio will be

(a) 1.11 : 1 (b) 1.22 : 1 (c) 1.38 : 1 (d) 1.25 : 1

80. To know the return on investment, by capital employed we mean:

(a) Net Fixed Assets
(b) Current Asset-Current Liabilities
(c) Gross Block
(d) Fixed Assets + Current Assets-Current Liabilities

81. Liquid Assets include :

(a) Cash balance (b) Trade Receivable
(c) Bank Balance (d) All of the Above

82. Liquid Ratio is equal to liquid assets divided by :

(a) Non-Current Liabilities (b) Current Liabilities
(c) Total Liabilities (d) Contingent Liabilities

83. Two basic measures of liquidity are :

(a) Inventory turnover and Current ratio (b) Current ratio and Quick ratio
(c) Gross Profit ratio and Operating ratio (d) Current ratio and Average Collection period

84. Patents and Copyrights fall under the category of:
(a) Current Assets (b) Liquid Assets
(c) Intangible Assets (d) Tangible assets

85. Cash Balance ₹15,000; Trade Receivables ₹35,000; Inventory ₹40,000; Trade Payables ₹24,000 and Bank Overdraft is ₹6,000. Current Ratio will be :
(a) 3.75 : 1 (b) 3 : 1 (c) 1 : 3 (d) 1 : 3.75

86. Trade Receivables ₹ 40,000; Trade Payables ₹ 60,000; Prepaid Expenses ₹ 10,000; Inventory ₹ 1,00,000 and Goodwill is ₹ 15,000. Current Ratio will be :
(a) 1 : 2 (b) 2 : 1 (c) 2.3 : 1 (d) 2.5 : 1

87. Which of the following is not operating expenses?
(a) Office Expenses (b) Selling Expenses
(c) Bad Debts (d) Loss by Fire

88. Cash Balance ₹5,000; Trade Payables ₹40,000; Inventory ₹50,000; Trade Receivables ₹65,000 and Prepaid Expenses are ₹10,000. Liquid Ratio will be __________.
(a) 1.75 : 1 (b) 2 : 1 (c) 3.25 : 1 (d) 3 : 1

89. Which of the following transactions will improve the Current Ratio :
(a) Cash Collected from Trade Receivables (b) Purchase of goods for cash
(c) Payment to Trade Payables (d) Credit purchase of Goods

90. Current liabilities of a company were ₹2,00,000 and its current ratio was 2.5 : 1. After this the company paid ₹1,00,000 to a trade payable. The current ratio after the payment will be :
(a) 2 : 1 (b) 4 : 1 (c) 5 : 1 (d) 6 : 1

91. A company's Current Ratio is 2 : 1. After cash payment to some of its creditors, Current Ratio will ________.
(a) Decrease (b) Increase (c) Same as before (d) Will not improve

92. Current ratio of a firm is 9 : 4. Its current liabilities are ₹1,20,000. Inventory is ₹30,000. Its liquid ratio will be :
(a) 1 : 1 (b) 1.5 : 1 (c) 2 : 1 (d) 1.6 : 1

93. A company's Current assets are ₹3,00,000 and its current liabilities are ₹2,00,000. Subsequently, it paid ₹50,000 to its trade payables. Current ratio will be__________.
(a) 2 : 1 (b) 1.67 : 1 (c) 1.25 : 1 (d) 1.5 : 1

94. Current Assets of a Company were ₹ 1,00,000 and its current ratio was 2 : 1. After this the company paid ₹ 25,000 to a Trade Payable. The Current Ratio after the payment will be :
(a) 5 : 1 (b) 2 : 1 (c) 3 : 1 (d) 4 : 1

95. A Company's liquid assets are ₹ 5,00,000 and its current liabilities are ₹ 3,00,000. Thereafter, it paid ₹ 1,00,000 to its trade payables. Quick ratio will be:
(a) 1.33 : 1 (b) 2.5 : 1 (c) 1.67 : 1 (d) 2 : 1

96. Current Ratio of a Company is 2.5: 1. If its working capital is ₹60,000, its current liabilities will be :
(a) ₹40,000 (b) ₹60,000 (c) ₹1,00,000 (d) ₹24,000

97. __________ is a measure of liquidity which excludes ________ the least liquid asset.
(a) Current ratio, Accounts receivable (b) Liquid ratio, Accounts receivable
(c) Current ratio, inventory (d) Liquid ratio, inventory

98. A Company's Current Ratio is 2.5 : 1 and Liquid Ratio is 1.6 : 1. If its Current Assets are ₹ 7, 50,000, what will be the value of Inventory?
(a) ₹4,50,000 (b) ₹4,80,000 (c) ₹2,70,000 (d) ₹1,80,000

99. Assuming that the current ratio is 2 : 1, purchase of goods on credit would:
(a) Increase Current ratio (b) Decrease Current ratio
(c) have no effect on Current ratio (d) decrease gross profit ratio

100. Current Assets ₹4,00,000; Current Liabilities ₹2,00,000 and Inventory is ₹50,000. Liquid Ratio will be :
(a) 2 : 1 (b) 2.25 : 1 (c) 4 : 7 (d) 1.75 : 1

101. Assuming that the current ratio is 2 : 1, Cash paid against Bills Payable would:
(a) increase current ratio (b) Decrease Current ratio
(c) have no effect on Current ratio (d) decrease gross profit ratio

102. The balance sheet of XYZ Ltd shows; Equity share capital ₹25,00,000 and Total Assets ₹45, 00,000. Proprietary Ratio =________
(a) 10% (b) 33.3% (c) 55.55% (d) 30%

103. Liquid Assets = ____________.
(a) Current Assets – Prepaid Expenses.
(b) Current Assets – Inventory + Prepaid Exp.
(c) Current Assets – Inventory – Prepaid Exp.
(d) Current Assets + Inventory – Prepaid Exp.

104. Current Assets ₹85,000; Inventory ₹22,000; Prepaid Expenses ₹3,000. Then liquid assets will be :
(a) ₹63,000 (b) ₹60,000 (c) ₹82,000 (d) ₹1,10,000

105. What will be Company's closing debtors if Credit revenue from operations ₹9,00,000; Average Collection period 2 months; Opening debtors are ₹15,000 less as compared to closing debtors?
(a) ₹1,42,500 (b) ₹1,57,500 (c) ₹1,80,000 (d) ₹75,000

106. Collection of debtors
(a) Decreases current ratio (b) Increases current ratio
(c) Has no effect on current ratio (d) None of the above

107. A Company's Quick Ratio is 1.5 : 1; Current Liabilities are₹2,00,000 and Inventory is ₹1,80,000. Current Ratio will be _______.
(a) 0.9 : 1 (b) 1.9 : 1 (c) 1.4 : 1 (d) 2.4 : 1

108. Assuming liquid ratio of 1.2 : 1, cash collected from debtors would :
(a) increase liquid ratio (b) decrease liquid ratio
(c) have no effect on liquid ratio (d) increase gross profit ratio

109. A Company's Current Ratio is 2.8 : 1; Current Liabilities are ₹2,00,000; Inventory is ₹1,50,000 and Prepaid Expenses are ₹10,000. Its Liquid Ratio will be :
(a) 3.6 : 1 (b) 2.1 : 1 (c) 2 : 1 (d) 2.05 : 1

110. A Company's Current Ratio is 3 : 1; Current Liabilities are ₹2,50,000; Inventory is ₹60,000 and Prepaid Expenses are ₹5,000. Its Liquid Assets will be :
(a) ₹6,90,000 (b) ₹6,95,000
(c) ₹6,85,000 (d) ₹8,15,000

111. A firm's current ratio is 3.5: 2. Its current liabilities are ₹ 80,000. Its working capital will be :
(a) ₹1,20,000 (b) ₹1,60,000 (c) ₹60,000 (d) ₹2,80,000

112. Proportion of shareholder's funds to total assets is called
(a) Proprietary ratio (b) Capital gearing ratio
(c) Debt equity ratio (d) Current ratio

113. A Company's Current Ratio is 2.5 : 1 and its Working Capital is ₹60,000. If its Inventory is ₹52,000, what will be the liquid Ratio?
(a) 2.3 : 1 (b) 2.8 : 1 (c) 1.3 : 1 (d) 1.2 : 1

114. A Company's Current Ratio is 3: 1 and Liquid Ratio is 1.2: 1. If its Current Liabilities are ₹2,00,000, what will be the value of Inventory?
(a) ₹2,40,000 (b) ₹3,60,000 (c) ₹4,00,000 (d) ₹40,000

115. Debt Equity Ratio is :
(a) Liquidity Ratio (b) Solvency Ratios
(c) Activity Ratio (d) Operating Ratio

116. A Company's Current Assets are ₹6,00,000 and working capital is ₹2,00,000. Its Current Ratio will be :
(a) 3 : 1 (b) 1.5 : 1 (c) 2 : 1 (d) 4 : 1

117. Which of the following are limitations of ratio analysis?
(A) Ratio analysis may result in false results if variations in price levels are not considered.
(B) Ratio analysis ignores qualitative factors
(C) Ratio Analysis ignores quantitative factors
(D) Ratio Analysis is historical analysis.

Chose the correct option from followings:
(a) A, B and D (b) A, C and D (c) A, B and C (d) A, B, C, D

118. A Company's Current Ratio is 2.4 : 1 and Working Capital is ₹5,60,000. If its Liquid Ratio is 1.5, what will be the value of Inventory?
(a) ₹6,00,000 (b) ₹2,00,000 (c) ₹3,60,000 (d) ₹6,40,000

119. Long term solvency is indicated by :
(a) Current Ratio (b) Quick Ratio (c) Net Profit Ratio (d) Debt/Equity Ratio

120. If a Company's Current Liabilities are ₹80,000; Working Capital is ₹2,40,000 and Inventory is ₹40,000, its quick ratio will be:
(a) 3.5 : 1 (b) 4 : 1 (c) 4.5 : 1 (d) 3 : 1

121. Which ratios provide the information critical to the long run operation of the firm?
(a) Liquidity (b) Activity (c) Solvency (d) Profitability

122. A Company's Liquid Assets are ₹2,00,000, Inventory is ₹1,00,000, Prepaid Expenses are ₹20,000 and Working Capital is ₹2,40,000. Its Current Ratio will be:
(a) 1.33 : 1 (b) 4 : 1 (c) 2.5 : 1 (d) 3 : 1

123. Debt Equity Ratio is :
(a) Long Term Debts/Shareholder's Funds (b) Short Term Debts/Equity Capital
(c) Total Assets/Long term Debts (d) Shareholder's Funds/Total Assets

124. A Company's Quick Ratio is 1.8 : 1; Liquid Assets are ₹ 5,40,000 and Inventory is ₹ 1,50,000. Its Current Ratio will be:
(a) 2 : 1 (b) 2.3 : 1 (c) 1.8 : 1 (d) 1.3 : 1

125. Proprietary Ratio is :
(a) Long term Debts/Shareholder's Funds (b) Total Assets/Shareholder's Funds
(c) Shareholder's Funds/Total Assets (d) Shareholder's Funds/Fixed Assets

126. The mathematical expression that provides a measure of the relationship between two figures is called
(a) Ratio (b) Model (c) Conclusion (d) Decision

127. Fixed Assets ₹5,00,000; Current Assets ₹3,00,000; Equity Share Capital ₹4,00,000; Reserves ₹2,00,000; Long-term Debts ₹40,000. Proprietary Ratio will be :
(a) 75% (b) 80% (c) 125% (d) 100%

128. Liquid ratio is also known as (A) Quick ratio B) Acid test ratio C) Working capital ratio D) Stock turnover ratio. Chose the correct option from following
(a) A and B (b) A and C (c) C and B (d) C and D

129. If Debt equity ratio exceeds, it indicates risky financial position.
(a) 1 : 1 (b) 2 : 1 (c) 1 : 2 (d) 3 : 1

130. In debt equity ratio, debt refers to :

(a) Short Term Debts (b) Long Term Debts

(c) Total Debts (d) Debentures and Current Liabilities

131. A Company's Current Assets are ₹ 8,00,000 and its current liabilities are ₹ 4,00,000. Subsequently, it purchased goods for ₹ 1,00,000 on credit. Current ratio will be _____.

(a) 2 : 1 (b) 2.25 : 1 (c) 1.8 : 1 (d) 1.6 : 1

132. Which of the following statements are true about Ratio Analysis?

(A) Ratio analysis is useful in financial analysis.

(B) Ratio analysis is helpful in communication and coordination.

(C) Ratio Analysis is not helpful in identifying weak spots of the business.

(D) Ratio Analysis is helpful in financial planning and forecasting.

(a) A, B and D (b) A, C and D (c) A, B and C (d) A, B, C, D

133. If selling price is fixed 25% above the cost, the Gross Profit ratio is _____.

(a) 13% (b) 25% (c) 26% (d) 20%

134. Given Sales is 1,20,000 and Gross Profit is 30,000, the gross profit ratio is _____.

(a) 24% (b) 30% (c) 40% (d) 25 %

135. If sales is ₹5,00,000 and net profit is ₹1,20,000, Net Profit ratio is

(a) 24% (b) 16% (c) 60% (d) 25%

INPUT-TEXT BASED MCQs

Read the following text and answer the following questions (136 to 139) on the basis of the same:

Saagar Ltd. is interested to know the return on their total investment made in their company. The company is also interested to know what portion of the total assets have been financed through Long term debts.

Net Profit after interest and tax ₹1,00,000; Current assets ₹4,00,000; Current liabilities ₹2,00,000; Tax rate 20%; Fixed assets ₹6,00,000; 10% Long term debt ₹4,00,000.

On the basis of the above information, answer the following questions:

136. State the amount of Capital Employed.

(a) ₹10,00,000 (b) ₹6,00,000 (c) ₹8,00,000 (d) ₹12,00,000

137. State the amount of Net Profit before Interest and Tax.

(a) ₹1,25,000 (b) ₹1,45,000 (c) ₹1,65,000 (d) ₹1,90,000

138. The Return on Investment is __________

(a) 20.62% (b) 21% (c) 21.62% (d) 19.62%

139. Find Total Asset to Debt Ratio.

(a) 2.4 times (b) 2.5 times (c) 3 times (d) 4 times

Read the following text and answer the following questions (140 to 143) on the basis of the same:

Choose the correct option to answer the questions given with the help of the information given below:

Information	**Amount (₹)**
Paid up share capital	8,00,000
Current Assets	5,00,000
Credit revenue from operations	3,00,000
Cash revenue from operations	75% of credit revenue from operations
9% Debentures	3,40,000
Current liabilities	2,90,000
Cost of revenue from operations	6,80,000

140. The Total Revenue from Operations of the concern is:
(a) ₹4,40,800 (b) ₹5,25,000 (c) ₹6,48,000 (d) ₹4,50,000

141. The Gross Profit Ratio of the concern is:
(a) 32.8% (b) 29.52% (c) 28.35% (d) 34.65%

142. The working capital turnover ratio is:
(a) 4.5 times (b) 2.5 times (c) 1.5 times (d) 3 times

143. Proprietary ratio of the concern is:
(a) 0.56:1 (b) 1:1 (c) 0.52:2 (d) 0.26:3

Read the following text and answer the following questions (144 to 147) on the basis of the same:

Read the following hypothetical extract of Saanchi Limited and answer the given questions on the basis of the same:

Year Amount	2020 (IN ₹)	2019 (IN ₹)	2018 (IN ₹)
Outstanding Expenses	50,000	40,000	25,000
Prepaid Expenses	3,00,000	2,50,000	3,50,000
Trade Payables	18,00,000	16,00,000	14,00,000
Inventory	12,00,000	10,00,000	11,00,000
Trade Receivables	11,00,000	8,00,000	10,00,000
Cash in hand	17,00,000	12,00,000	15,00,000
Revenue from operations	24,00,000	18,00,000	20,00,000
Gross Profit Ratio	12%	15%	18%

144. Current Ratio for the year 2020 will be______________.
(a) 2:1 (b) 1.8:1
(c) 2.32:1 (d) 2.4:1

145. Quick Ratio for the year 2018 will be______________
(a) 1.75:1 (b) 1.8:1
(c) 0.94:1 (d) 1.25:1

146. Inventory turnover ratio for the year 2020 will be______________.
(a) 1.62 times (b) 1.82 times
(c) 1.55 times (d) 1.92 times

147. Cost of Revenue from Operations for the year 2020 would be ____________.
(a) ₹21,12,000 (b) ₹21,13,000
(c) ₹21,15,000 (d) ₹21,17,000

ANSWERS

Multiple Choice Questions

1. (a)	**2.** (b)	**3.** (a)	**4.** (a)	**5.** (c)	**6.** (b)	**7.** (d)	**8.** (b)	**9.** (b)	**10.** (c)
11. (d)	**12.** (a)	**13.** (c)	**14.** (b)	**15.** (b)	**16.** (a)	**17.** (a)	**18.** (d)	**19.** (b)	**20.** (d)
21. (a)	**22.** (a)	**23.** (b)	**24.** (c)	**25.** (c)	**26.** (b)	**27.** (c)	**28.** (a)	**29.** (c)	**30.** (d)
31. (b)	**32.** (b)	**33.** (a)	**34.** (a)	**35.** (a)	**36.** (c)	**37.** (b)	**38.** (a)	**39.** (a)	**40.** (c)
41. (b)	**42.** (b)	**43.** (a)	**44.** (d)	**45.** (a)	**46.** (c)	**47.** (d)	**48.** (d)	**49.** (a)	**50.** (c)
51. (b)	**52.** (c)	**53.** (d)	**54.** (d)	**55.** (c)	**56.** (c)	**57.** (d)	**58.** (a)	**59.** (c)	**60.** (d)
61. (b)	**62.** (b)	**63.** (d)	**64.** (a)	**65.** (a)	**66.** (c)	**67.** (c)	**68.** (a)	**69.** (c)	**70.** (d)
71. (c)	**72.** (c)	**73.** (c)	**74.** (d)	**75.** (b)	**76.** (a)	**77.** (c)	**78.** (a)	**79.** (a)	**80.** (d)
81. (d)	**82.** (b)	**83.** (b)	**84.** (c)	**85.** (b)	**86.** (d)	**87.** (d)	**88.** (a)	**89.** (c)	**90.** (b)

91. (b)	**92.** (c)	**93.** (b)	**94.** (c)	**95.** (d)	**96.** (a)	**97.** (d)	**98.** (c)	**99.** (b)	**100.** (d)
101. (a)	**102.** (c)	**103.** (c)	**104.** (b)	**105.** (b)	**106.** (c)	**107.** (d)	**108.** (c)	**109.** (c)	**110.** (c)
111. (c)	**112.** (a)	**113.** (d)	**114.** (b)	**115.** (b)	**116.** (b)	**117.** (a)	**118.** (c)	**119.** (d)	**120.** (a)
121. (c)	**122.** (b)	**123.** (a)	**124.** (a)	**125.** (c)	**126.** (a)	**127.** (a)	**128.** (a)	**129.** (b)	**130.** (b)
131. (c)	**132.** (a)	**133.** (d)	**134.** (d)	**135.** (a)					

Input-Text Based MCQs

136. (c)	**137.** (c)	**138.** (a)	**139.** (b)	**140.** (b)	**141.** (b)	**142.** (b)	**143.** (a)	**144.** (c)	**145.** (b)
146. (d)	**147.** (a)								

HINTS TO SOME SELECTED QUESTIONS

3. Quick Ratio = Liquid Asset/Current Liabilities; Current Assets = Liquid Asset + inventory; Current Ratio = Current Assets/Current Liabilities.

4. Equity = total Assets – Total Debt; Total debt = Long term debt – Current Liabilities; Debt-equity ratio = debt/ equity.

5. Profit before Interest and Tax = (2,00,000 × $\frac{25}{100}$) ₹50,000 Less interest paid (2,00,000 × 15%) 30,000 Less tax paid (20,000 × $\frac{40}{100}$) 8000. So, Net gain to shareholder = 12,000.

22. GP Ratio = (Gross Profit/Net Revenue from Operations) × 100

Gross profit = Net Sales – CORFO

35. Current ratio = $\frac{CA}{CL}$.

44. GP Ratio = (Gross Profit/Net Revenue from Operations) × 100

Gross profit = Net Sales – CORFO

Net Sales = Total Sales-Sales Returns.

45. Proprietary Ratio = Shareholders Fund/Total Assets.

51. Working Capital + Current Liabilities = Current Assets.

65. Total Asset to Debt Ratio = Total Asset/Long Term Debt.

72. STR = COGS/Average Stock.

Average Stock = (Opening stock + Closing Stock)/2

COGS = Net sales – Gross profit.

102. Proprietary Ratio = Shareholders Fund/Total Assets.

◆◆◆