Introduction

1 Mark Questions

1. State how personal bias can get reflected in ratio analysis. (All India 2011)

Ans. In many situations, the accountant has to make the choice out of various alternatives available e.g. choice in the method of depreciation (straight line or written down), choice in the method of inventory valuation (LIFO, FIFO or HIFO). Since the subjectivity is inherent in personal judgement, the financial statements are therefore not free from personal bias. As a result, ratio analysis cannot be said to be free from bias.

2. State any two limitations of ratio analysis. (All India 2010)

Ans. The two limitations of ratio analysis are:
(i) Accounting ratios ignore qualitative factors.
(ii) Impressed by personal bias and ability of the analyst.

3. What is meant by accounting ratios? (Delhi 2010 c)

Ans. An accounting ratio is a mathematical expression of the relationship between two items or group of items shown in the financial statements.