Accounting Ratios

Multiple Choice Questions (MCQs):

Question 1.
The two basic 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

▼ Answer

Answer: (a) Inventory Turnover Ratio and Working Capital Turnover Ratio

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Question 2.
Acid Test ratio comes under:
(a) Liquidity ratio
(b) Solvency ratio
(c) Profitability ratio
(d) Activity ratio

▼ Answer

Answer: (a) Liquidity ratio

Question 3.
Current assets are those assets which are convertible into cash within:
(a) One month
(b) 6 months
(c) 12 months
(d) none of these

▼ Answer

Answer: (c) 12 months

Question 4.
Which of the following is not considered in the ratio analysis as per guidance notes?
(a) Fixed Assets
(b) Share capital
(c) Other Non-current Assets
(d) Non-current Assets

▼ Answer

Answer: (c) Other Non-current Assets

Question 5.
Which of the following will increase the current ratio where it is 2 : 1 ?
(a) Payment to creditors
(b) Conversions of receivables into cash
(c) Purchase of goods on credit
(d) Purchase of goods for cash

▼ Answer

Answer: (a) Payment to creditors

Question 6.
Long term solvency ratio is judged by which of the following ratio?
(a) Debt equity ratio
(b) Total assets turnover ratio
(c) Liquidity ratios
(d) Operating ratio

▼ Answer

Answer: (c) Liquidity ratios

Question 7.
Which of the following ratios provide solvency position of a business in the long run?
(a) Liquidity Ratios
(b) Solvency ratios
(c) Profitability ratios
(d) Turnover ratios

▼ Answer

Answer: (b) Solvency ratios

Question 8.
In debt equity ratio, debt refers to
(a) Short term debts
(b) Total debts
(c) Shareholders' funds
(d) Long term borrowings and long term debts

▼ Answer

Answer: (d) Long term borrowings and long term debts

Question 9.
Which of the following transactions will increase debt equity ratio which is 1 : 2?
(a) Issue of shares for cash
(b) Redemption of preference shares
(c) Redemption of debentures
(d) Conversion of debentures into shares

▼ Answer

Answer: (b) Redemption of preference shares

Question 10.
Interest coverage is equal to
(a) Interest after interest but before tax / interest on debt
(b) Interest before interest and tax / interest on debt
(c) Interest after interest and debt / interest on debt
(d) Interest on debt / Interest before interest and tax

▼ Answer

Answer: (b) Interest before interest and tax / interest on debt

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Question 11.
Cost of revenue from operations is the difference between
(a) Revenue from operations + Gross Profit
(b) Revenue from operations – Gross Profit
(c) Revenue from operations – Net profit
(d) Revenue from operations + Net Profit

▼ Answer

Answer: (b) Revenue from operations – Gross Profit

State whether the following statements are true or false:

Question 12.
Issue of bonus shares will decrease the debt equity ratio.

▼ Answer

Answer: False

Question 13.
Buying of goods for cash will decrease current ratio.

▼ Answer

Answer: False

Question 14.
For calculating return on capital employed, net profit before interest is taken.

▼ Answer

Answer: True

Question 15.
Purchase of goods on credit will not change the current ratio.

▼ Answer

Answer: False

Question 16.
Working capital and net working capital are assumed to be one and same thing.

▼ Answer

Answer: True

Question 17.
Purchase of stock on credit will not affect quick ratio.

▼ Answer

Answer: False

Question 18.
The excess of revenue from operation over cost of revenue from operation is known as net profit.

▼ Answer

Answer: False

Question 19.
Conversion of debentures into equity results in decrease in debt equity ratio in case debt equity ratio is 1 : 2.

▼ Answer

Answer: True

Question 20.
Purchase of stock will decrease the inventory turnover ratio.

▼ Answer

Answer: True

Question 21.
Operating cost + operating profit = revenue from operations.

▼ Answer

Answer: True

Fill in the blanks with correct word:

Question 22.
The _______ ratios are primarily measure of return.

▼ Answer

Answer: Profitability

Question 23.
The ________ of a company is measured by its ability to pay short-term liabilities.

▼ Answer

Answer: Liquidity

Question 24.
_______ ratios are those ratios through which speed of various accounts converted into cash is measured.

▼ Answer

Answer: Activity

Question 25.
______ are interested in the average collection period.

▼ Answer

Answer: creditors/receivables

Question 26.
While calculating current ratio, ________ are excluded from the list of current assets.

▼ Answer

Answer: loose tools and spares

Question 27.
While calculating working capital ratio, ________ is included in the current assets.

▼ Answer

Answer: loose tools and spares

Question 28.
Under net profit ratio, normally net profit is ______ taken.

▼ Answer

Answer: net profit after tax

Question 29.
Operating ratio + operating ratio = ________.

▼ Answer

Answer: 100

Question 30.
While calculating current ratio, trade receivables should be taken _______ (after / before) deducting provision for doubtful debts.

▼ Answer

Answer: after

Question 31.
While calculating working capital turnover ratio, trade receivables should be taken _______ (after / before) deducting provision for doubtful debts.

▼ Answer

Answer: before

One word Questions:

Question 32.
What will be the effect on current ratio if a bills payable is discharged on maturity? (CBSE SP 2019-20)

▼ Answer

Answer: The current ratio will increase

Question 33.
Debt Equity Ratio of a company is 1:2. Purchase of a Fixed asset for ₹ 5,00,000 on long term deferred payment basis will increase, decrease or not change the ratio?

▼ Answer

Answer: Increased

Question 34.
It is a simple arithmetical expression of relationship between two figures. Name the term.

▼ Answer

Answer: Ratio

Question 35.
The liquidity of a business firm is measured by its ability to satisfy its long-term obligations as they become due. Name a ratio used for this purpose.

▼ Answer

Answer: Current Ratio.

Question 36.
X Ltd. has a Debt-Equity Ratio at 3 : 1. According to the management it should be maintained at 1 : 1. What is the choice to do so?

▼ Answer

Answer: To increase the equity or reduce the debt.

Question 37.
How the solvency of a business is assessed by Financial Statement Analysis? (CBSE Delhi 2012).

▼ Answer

Answer: With the help of solvency ratios

Question 38.
Assuming that the debt to equity ratio is 1 : 2, state giving reason, whether the ratio will improve, decline or will have no change in case equity shares are issued for cash. (CBSE Foreign 2006)

▼ Answer

Answer: Decrease.

Question 39.
Debt to equity ratio of a company is 08 : 1. State whether long term loan obtained by the company will increase, decrease or not change the ratio. (CBSE Outside Delhi 2008)

▼ Answer

Answer: Increase.

Question 40.
Inventory Turnover ratio of a company is 3 times. State, giving reason, whether the ratio improve,

decline or do not change because of increase in the value of closing stock by ₹ 5,000. (CBSE Outside Delhi 2008)

▼ Answer

Answer: Decrease.

Question 41.
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 by ₹ 50,000. (CBSE Foreign 2008)

▼ Answer

Answer: No change.

Question 42.
If a company has earned ₹ 10,00,000 as profit before interest and tax, ROI is 20%. State the capital employed in the company.

▼ Answer

Answer: ₹ 5,00,000

$$\text{Note ROI} = \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$\text{Capital Employed} = \frac{\text{Net Profit before Interest and Tax}}{20} \times 100$$

$$\text{Capital Employed} = ₹10,00,000 \times 5 = ₹\ 50,00,000$$

Question 43.
What will be operating profit if operating ratio is 88.94? (CBSE Delhi 2009)

▼ Answer

Answer: Operating Profit = 100 – 88.94 = 11.06

Question 44.
State with reason whether repayment of long-term loan will result in increase, decrease or no change of debt-equity ratio. (CBSE Outside Delhi 2010 Compt.)

▼ Answer

Answer: Decrease.

Question 45.
A company has Share Capital of ₹ 5,00,000, Reserves and Surplus of ₹ 2,00,000 and Debt Equity Ratio of 1.8 : 1. It has issued additional Share Capital of ₹ 2,00,000 for cash and bonus shares of ₹ 1,00,000. What will be new Debt Equity Ratio?
Ans.

▼ Answer

Answer: 1,4 : 1
