# **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

# 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

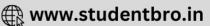
## Question 6.

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

### Ouestion 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

# Ouestion 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

#### Ouestion 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

# Ouestion 10.

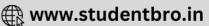
Interest coverage is equal to

- (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





# 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:

# Ouestion 12.

Issue of bonus shares will decrease the debt equity ratio.

#### **▼** Answer

Answer: False

# Ouestion 13.

Buying of goods for cash will decrease current ratio.

#### **▼** Answer

Answer: False

#### Ouestion 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

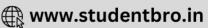
Answer: False

# 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

### Ouestion 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.

# Ouestion 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

### Ouestion 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)

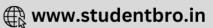
# **▼** Answer

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

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

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

Capital Employed = ₹10,00,000 × 5 = ₹ 50,00,000

# Ouestion 43.

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

# **▼** Answer

Answer: Operating Profit = 100 - 88.94 = 11.06

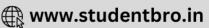
### Ouestion 44.

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

