

ANALYSIS OF FINANCIAL STATEMENTS OF A COMPANY

STUDY NOTES

- **Meaning of Analysis of Financial Statements:**

Financial statement analysis is the process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm.

- **Significance of Analysis of Financial Statements:**

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss. Financial analysis is useful and significant to different users like,

- **Finance manager:** Financial analysis focuses on the facts and relationships related to managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness of the company and helps manager in studying accounting data so as to determine the continuity of the operating policies, investment value of the business, credit ratings and testing the efficiency of operations.
- **Top management:** Financial analysis helps the management in measuring the success of the company's operations, appraising the individual's performance and evaluating the system of internal control.
- **Trade payables:** Through analysis, trade payables appraise the ability of the company to meet its short-term obligations and judge the probability of its continued ability to meet all its financial obligations in future.
- **Lenders:** Suppliers of long-term debt are concerned with the firm's long term solvency and survival. They analyse the firm's profitability over a period of time, its ability to generate cash, to be able to pay interest and repay the principal and the relationship between various sources of funds.
- **Investors:** Investors are interested about the firm's earnings. They concentrate on the analysis of the firm's present and future profitability. They are also interested in the firm's capital structure to ascertain its influences on firm's earning and risk. They also evaluate the efficiency of the management and determine whether a change is needed or not.
- **Labour unions:** Labour unions analyse the financial statements to assess whether it can presently afford a wage increase and whether it can absorb a wage increase through increased productivity or by raising the prices.
- **The economists, researchers, etc:** They analyse the financial statements to study the present business and economic conditions. The government agencies need it for price regulations, taxation and other similar purposes.

- **Objectives of Analysis of Financial Statements:**

The financial statement analysis is undertaken to serve the following purposes (objectives):

- to assess the current profitability and operational efficiency of the firm as a whole as well as its different departments so as to judge the financial health of the firm.
- to ascertain the relative importance of different components of the financial position of the firm.
- to identify the reasons for change in the profitability/financial position of the firm.
- to judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm.

● **Tools of Analysis of Financial Statements:**

- **Comparative Statements:** These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. It usually applies to the two important financial statements, namely, balance sheet and statement of profit and loss prepared in a comparative form. This analysis is also known as 'horizontal analysis'.
- **Common Size Statements:** These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item. Common size statements are useful, both, in intra-firm comparisons over different years and also in making inter-firm comparisons for the same year or for several years. This analysis is also known as 'Vertical analysis'.
- **Trend Analysis:** It is a technique of studying the operational results and financial position over a series of years. Using the previous years' data of a business enterprise, trend analysis can be done to observe the percentage changes over time in the selected data. The trend percentage is the percentage relationship, in which each item of different years bear to the same item in the base year.
- **Ratio Analysis:** It describes the significant relationship which exists between various items of a balance sheet and a statement of profit and loss of a firm.
Accounting ratios measure the comparative significance of the individual items of the income and position statements. It is possible to assess the profitability, solvency and efficiency of an enterprise through the technique of ratio analysis.
- **Cash Flow Analysis:** It refers to the analysis of actual movement of cash into and out of an organisation. Cash flow statement is prepared to project the manner in which the cash has been received and has been utilised during an accounting year as it shows the sources of cash receipts and also the purposes for which payments are made. Thus, it summarises the causes for the changes in cash position of a business enterprise between dates of two balance sheets.

● **Limitations of Financial Statement Analysis:**

- Reliability of financial analysis depends upon reliability of financial statements. Manipulation in financial statements may reduce its reliability.
- Financial analysis does not consider price level changes.
- Financial analysis may be misleading without the knowledge of the changes in accounting procedure followed by a firm.
- Financial analysis is just a study of reports of the company.
- Monetary information alone is considered in financial analysis while non-monetary aspects are ignored.
- If wrong tool of analysis is used it may misguide the users.
- The financial statements are prepared on the basis of accounting concept, as such, it does not reflect the current position.

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

1. Analysis means _____.
(a) Making data readable (b) Simplifying the data
(c) Knowing movement of resources (d) Making data complex
2. Interpretation means explaining _____ of data.
(a) Impact (b) Cause (c) Reason (d) Result
3. Financial statement analysis ignores _____ elements.
(a) Qualitative (b) Quantitative (c) Material (d) Book value

4. Finance cost for the last two years are ₹5,00,000 (in 2021-22) and ₹8,00,000 (in 2020-21) respectively. What is the Percentage change in finance cost over two years?
- (a) Decrease 37.5% (b) Decrease 37.5%
(c) Increase 30% (d) Increase 30%
5. Which analysis is considered as dynamic?
- (a) Horizontal Analysis (b) Vertical Analysis
(c) Internal Analysis (d) External Analysis
6. Revenue from operations on 31st March 2021 was ₹15,00,000 and on 31st March 2020 was 12, 00,000. What will be the percentage change in RFO?
- (a) 50% (b) 25% (c) 30% (d) 100%
7. Which analysis is considered as a static analysis?
- (a) Horizontal Analysis (b) Vertical Analysis
(c) Internal Analysis (d) External Analysis
8. If cost of material consumed was ₹12,00,000 in 2020-21 and total revenue from operations was ₹20,00,000, and then % of cost of material consumed to revenue from operations is ____.
- (a) 60% (b) 160% (c) 100% (d) 40 %
9. Which analysis is based only on one year's data?
- (a) Cash Flow Statement (b) Dividend Analysis
(c) Vertical Analysis (d) Horizontal Analysis
10. Trade payables are ₹54,000 and total of equity and liabilities is ₹4,39,000. What will be the percentage of trade payables as per common size statement of balance sheet?
- (a) 12.20% (b) 12% (c) 24.20% (d) 10.20%
11. The analysis of actual movement of cash inflows and cash outflows is known as _____.
- (a) Vertical analysis (b) Cash flow analysis
(c) Horizontal analysis (d) Movement analysis
12. Main objective of analysis of financial statements is
- (a) To know the financial strength
(b) To make a comparative study with other firms
(c) To know the efficiency of management
(d) All of the Above
13. Revenue from operations of XYZ Ltd is ₹10,00,000 and Employee Benefit expenses are ₹2, 20,000. What will be the percentage of Employee Benefit Expenses as per common size statement?
- (a) 11% (b) 10% (c) 22% (d) 12%
14. Analysis of Financial Statements is significant:
- (a) For Creditors (b) For Managers
(c) For Employees (d) For all of the above
15. Trade receivables are ₹43,000 and total of asset side of balance sheet is ₹4,39,000. What will be the percentage of trade receivables as per common size statement of balance sheet?
- (a) 9.80 (b) 10.80 (c) 10 (d) 9.10
16. Financial analysis becomes significant because it :
- (a) Ignores price level changes (b) Measures the efficiency of business
(c) Lacks qualitative analysis (d) Is effected by personal bias
17. Short term provisions are ₹1,600 and total of equity and liabilities is ₹4,00,000. What will be the percentage of short term provisions as per common size statement of balance sheet?
- (a) 0.80 (b) 0.40 (c) 0.20 (d) 0.25

18. Feature of financial analysis is to present the data contained in financial statements in
 (a) Easy form (b) Convenient and rational groups
 (c) Comparable form (d) All of the Above
19. Common size statement of profit and loss is prepared _____
 (a) To know profit before tax.
 (b) To know profit after tax.
 (c) To know profitability ratios
 (d) To determine how the various items of statement of profit and loss affect profitability.
20. Tools of analysis of financial statement do not include _____
 (a) Accounting ratio (b) Trading A/c
 (c) Common size statement (d) Cash flow statement
21. When bad position of the business is tried to be depicted as good, it is known as _____
 (a) Personal Bias (b) Price Level Changes
 (c) Window Dressing (d) All of the Above
22. For whom the analysis of financial statements is not significant?
 (a) Investor (b) Government
 (c) Ambassador of India (d) Company's Employee
23. Main limitation of analysis of financial statements is
 (a) Affected by window dressing (b) Difficulty in forecasting
 (c) Do not reflect changes in price level (d) All of the Above
24. Which of the following is not a limitation of analysis of financial statements?
 (a) Affected by personal bias (b) To know the financial strength
 (c) Lack of Qualitative Analysis (d) Based on accounting concepts
25. Financial analysis become useless because it:
 (a) Measures the profitability (b) Measures the Solvency
 (c) Lacks Qualitative Analysis (d) Makes a comparative study
26. Parties interested in financial analysis are:
 (a) Investors (b) Government
 (c) Financial Institutions (d) All of the Above
27. Cost of material is ₹3,00,000 and revenue from operations is 250% of cost of material. What will be the amount of revenue from operation?
 (a) ₹7,50,000 (b) ₹4,50,000 (c) ₹4,00,000 (d) ₹7,20,000
28. Common size balance sheet is prepared for the use of _____
 (a) External analyst (b) Internal analyst
 (c) None of these (d) Both (a) and (b)
29. Revenue from operations is ₹11,00,000 and other income is 35% of RFO. What will be the amount of other income?
 (a) 5,50,000 (b) 4,50,000 (c) 3,85,000 (d) 3,50,000
30. Main limitation of financial analysis is:
 (a) To know earning capacity (b) To know financial strength
 (c) Do not reflect changes in price level (d) Comparative study with other firm
31. Comparative statements are also known as:
 (a) Dynamic analysis (b) Horizontal analysis
 (c) Vertical analysis (d) External analysis

32. The main area of study of Comparative balance sheet is _____
- In flow and out flow of cash
 - Changes in items of assets and liabilities of two periods
 - Profitability of two years
 - Movements of assets
33. For whom analysis of financial statements is not significant?
- Political Adviser of Prime Minister
 - Investors
 - Management
 - Financial Institutions
34. It compares figures from financial statement in proportion or percentage or fraction or times _____
- Horizontal analysis
 - Vertical analysis
 - Ratio analysis
 - Fund analysis
35. If the gross profit is ₹5,000 and the net profit is 25% of the gross profit. The expenses must be?
- ₹ 3,750
 - ₹1,250
 - ₹4,150
 - ₹6,250
36. The main reason of preparing comparative balance sheet is _____
- Requirement of Section 30 of The Companies Act 2013
 - Requirement by the government
 - Requirement by the shareholders of the company
 - To analyse the items of balance sheet.
37. Which of the following is not a limitation of Analysis of Financial Statement?
- Window dressing
 - Subjectivity
 - Intra-firm comparison
 - Only quantitative analysis
38. In 2020-21, trade payables were ₹4,00,000 and in 2021-22, these were ₹4,40,000. What is the increase in trade payables?
- 20%
 - 30%
 - 10%
 - 50%
39. What is the difference between the total incoming and the total outgoing?
- Net cash flow
 - Cash inflow
 - Direct cost
 - Indirect cost
40. Revenue from operations of a company in 2020-21 was ₹20,00,000 and in 2021-22 it was ₹35,00,000. The percentage of increase was _____
- 50%
 - 75%
 - 25%
 - 100 %
41. The area of interest for a debenture holders while analyzing financial statement will be:
- Solvency
 - Liquidity
 - Profitability
 - Efficiency of management
42. Revenue from operations of a company is ₹30,00,000. Other expenses are ₹2,00,000. What will be the percentage of other expenses as per common size statement?
- 10%
 - 12%
 - 6.67%
 - 3.33%
43. _____ are interested in knowing the firm's ability to meet its short-term liabilities.
- Debtors
 - Shareholders
 - Public representatives
 - Creditors and suppliers
44. Revenue from operations is ₹12,00,000 and other income is 50% of RFO. What will be the amount of total revenue?
- 6,00,000
 - 18,00,000
 - 3,00,000
 - 1,50,000
45. Earning capacity of a company is ascertained by:
- Solvency ratios
 - Profitability ratios
 - Liquidity ratio
 - Working Capital Ratio

46. Under which tool of Financial Statement Analysis, 100% is taken as a base and all other related items are expressed as a percentage of base?
- (a) Comparative Statement (b) Common Size Statement
(c) Ratio analysis (d) Cash Flow Statement
47. Employee benefit expenses for the last two years are ₹1,00,000 (in 2021-22) and ₹90,000 (in 2020-21) respectively. What is the Percentage change in employee benefit expenses over two years?
- (a) Decrease 10% (b) Decrease 11.11% (c) Increase 11.11% (d) Increase 10%
48. Which of the following is an objective of Comparative Statement?
- (a) To make data simpler and understandable (b) To help in forecasting
(c) To indicate the trend (d) To know liquidity assets of business
49. Tangible fixed assets are ₹40,00,000 and intangible fixed assets are of ₹4,00,000. What is the percentage of intangible asset to total fixed asset?
- (a) 9 (b) 10.00
(c) 9.90 (d) 9.09
50. Which of the following is not a limitation of Comparative Statement?
- (a) Ignores price level changes (b) Ignores quantitative aspects
(c) Ignores Qualitative aspects (d) Variation in accounting Policies
51. Absolute change and percentage change are found in _____.
- (a) Comparative statement (b) Common size statement
(c) Cash flow statement (d) Financial statement
52. Current liabilities of the company decreased from ₹40,00,000 to ₹30,00,000. What is the percentage change?
- (a) 50% (b) 12.5% (c) 25% (d) 35%
53. Intra-Firm Analysis is also known as :
- (a) Cross-section Analysis (b) Trend analysis
(c) Dividend decision Analysis (d) Debt Analysis
54. _____ is the objective of comparative statement of profit and loss.
- (a) To study profit or loss
(b) To compute profits or loss
(c) To analyse the position of business
(d) To study the changes made in revenue expenses profits etc of two periods
55. Inter-Firm Analysis is also known as :
- (a) Cross-section Analysis (b) Trend analysis
(c) Dividend decision Analysis (d) Debt Analysis
56. It is a statement in which each asset is expressed as a percentage to total assets:
- (a) Comparative Statement (b) Common Size Statement
(c) Ratio analysis (d) Cash Flow Statement
57. Which one of the following is not the objective of preparing a common size statement of profit and loss?
- (a) To establish relationship of various items of expenses with RFO.
(b) To check the relative efficiency of cost items of firms belonging to same industry
(c) To ascertain accounting ratios
(d) To study changes in different items of statement of profit and loss in relation of RFO.
58. Total Current assets of the company are ₹25,00,000 and trade receivables are ₹4,00,000. What is the percentage of trade receivables to total current assets?
- (a) 25% (b) 10%
(c) 16% (d) 50%

59. Comparison of financial statements highlights the trend of the _____ of the business.
(a) Financial position (b) Performance
(c) None of these (d) Both (a) and (b)
60. Analysis of any financial statement means analysis of _____.
(a) Statement of profit and loss and Balance sheet.
(b) Profit and loss account and cash flow statement.
(c) Trading account and profit and loss accounts only
(d) Trading account and balance sheet only.

ANSWERS

Multiple Choice Questions

- | | | | | | | | | | |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 1. (b) | 2. (a) | 3. (a) | 4. (a) | 5. (a) | 6. (b) | 7. (b) | 8. (a) | 9. (c) | 10. (a) |
| 11. (b) | 12. (d) | 13. (c) | 14. (d) | 15. (a) | 16. (b) | 17. (b) | 18. (d) | 19. (d) | 20. (b) |
| 21. (c) | 22. (c) | 23. (d) | 24. (b) | 25. (c) | 26. (d) | 27. (a) | 28. (d) | 29. (c) | 30. (c) |
| 31. (b) | 32. (b) | 33. (a) | 34. (c) | 35. (a) | 36. (d) | 37. (a) | 38. (c) | 39. (a) | 40. (b) |
| 41. (a) | 42. (c) | 43. (d) | 44. (b) | 45. (b) | 46. (b) | 47. (c) | 48. (d) | 49. (d) | 50. (b) |
| 51. (a) | 52. (c) | 53. (b) | 54. (d) | 55. (a) | 56. (b) | 57. (c) | 58. (c) | 59. (d) | 60. (a) |



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** = $\text{PBIT} / \text{Capital Employed} \times 100$
- (f) **Return on Shareholders' Fund** = $\text{Profit after Tax} / \text{Shareholders' Funds} \times 100$
- (g) **Earnings Per Share** = $\text{Profit available for equity shareholders} / \text{Number of Equity Shares}$
- (h) **Book Value per share** = $\text{Equity shareholders' funds} / \text{Number of Equity Shares}$
- (i) **Dividend Payout Ratio** = $\text{Dividend per share} / \text{Earnings per share}$
- (j) **Price Earnings Ratio** = $\text{Market Price of a share} / \text{Earnings per share}$.

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 revenue 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 = _____.
- Average Inventory/Revenue from Operations
 - Average Inventory/Cost of Revenue from Operations
 - Cost of Revenue from Operations/Average Inventory
 - 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 :
- 7.5 times
 - 9 times
 - 6 times
 - 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:
- 1,60,000
 - 1,20,000
 - 80,000
 - 2,00,000
59. Current Assets do not include :
- Prepaid Expenses
 - Inventory
 - Goodwill
 - 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.
- 42 : 1
 - 53 : 1
 - 63 : 1
 - 37 : 1
61. If the inventory turnover ratio is divided into 365, it becomes a measure of
- Sales efficiency
 - Average Age of Inventory
 - Sales Turnover
 - 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?
- 18 Times
 - 16 Times
 - 14.4 Times
 - 8 Times
63. Which of the following transactions will not improve the quick ratio?
- Sale of goods for cash
 - Sale of goods on credit
 - Issue of new shares for cash
 - 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?
- 2.5 Times
 - 3 Times
 - 5 Times
 - 3.8 Times
65. Total Assets ₹ 7,70,000; Total Liabilities ₹ 2,60,000; Current Liabilities ₹ 40,000, Total Assets to Debt Ratio is:
- 3.5 : 1
 - 2.56 : 1
 - 2.8 : 1
 - 3 : 1
66. Proprietary Ratio indicates the relationship between Proprietor's Funds and
- Long-Term Debts
 - Short Term & Long Term Debts
 - Total Assets
 - Debentures
67. Current Ratio = _____
- Liquid Assets/Current Assets
 - Fixed Assets/Current Assets
 - Current Assets/Current Liabilities
 - 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.
- 40%
 - 60%
 - 30%
 - 70%
69. Liquid Assets do not include :
- Bills Receivable
 - Debtors
 - Inventory
 - 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 = $(2,00,000 \times \frac{25}{100})$ ₹50,000 Less interest paid $(2,00,000 \times 15\%)$ 30,000 Less tax paid $(20,000 \times \frac{40}{100})$ 8000. So, Net gain to shareholder = 12,000.
22. GP Ratio = $(\text{Gross Profit}/\text{Net Revenue from Operations}) \times 100$
 Gross profit = Net Sales – CORFO
35. Current ratio = $\frac{CA}{CL}$.
44. GP Ratio = $(\text{Gross Profit}/\text{Net Revenue from Operations}) \times 100$
 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 = $(\text{Opening stock} + \text{Closing Stock})/2$
 COGS = Net sales – Gross profit.
102. Proprietary Ratio = Shareholders Fund/Total Assets.

