RATIO ANALYSIS

MCQ

1. Which ratio measures the firm's ability to meet its short term - obligations in time ?

(a) Profilabilily ratios
(b) liquidily ratios
© Activity ratios
(d) Solvency ratios

2. Liquid Assets = ----------

(a) Current Assets + Inventory
(b) Current Assets - Inventory
© Current Assets - (Inventory + Debtors)
(d) Current Assets - (Inventory + prepaid Expenses)

3. A co.extends credit terms of 45 days to its customers its credit collection would be considered poor if it average collection period was -

(a) 30 days
(b) 52 days
© 41 days
(d) 36 days

4. If 365 if divided by inventory turnover ratio, it becomes a measure of -

(a) Revenue from operations efficiency
(b) Average collection period
(c)Average age of the invetory
(d) revenue from operations turnover

5. The _____ Indicates the percentage of each sales rupee remainig after the firm has paid cost of goods sold

(a) Net profit Margin
(b) Gross profit Margin
© Operating Profit margin
(d) Earning Available to Equity shre holders

6. The ideal ratio between total long - term funds & Total long- term loans is-

(a) 2:1
(b) 3:1
© 1:1
(d) 4:1

7. 100- operating profit ratio = _____

(a) Gross profit ratio
(b) Operating net profit ratio
© Operating ratio
(d) Net profit ratio

8. What is the limitation of ratio analysis?
(a) Price level changes not considered
(b) window dressing
(c) persnol Bias
(d) All of the above

9. The technique of converting figures into percentage in some common base is called _
(a) Common Size statement Analysis
(b) Comparative statement Analysis
(c) Ratio Analysis
(d) None

10. Asset while calculating current ratio ?
(a) Trade Receivable
(b) Current Investment
(c) Loose tools
(d) Cash Equivqlent

11. When will discharge of bills payable result into increase in current ratio-_
(a) If Current Ratio is 1:1
(b) If current Ratio is 2:1
© If current rtio is 0:8:1
(d) If current ratio is 1.5 : 1.5

12. If revenue from operation Rs 1,60,000 & Gross profit is rs 40,000 : Then Gross profit Ratio will be -
(a) 25%
(b) 30%
(c) 40%
(d) 45%

13. Which formula is correct for computing operating ratio -
(a) (Revenue frpm operations * 100) ÷ Operating cost
(b) (Opening cost *100) - cost of revenue from operation
(c)(Operating cost *100) - Revenue from operations
(d) None of These

14. If revenue from operation rs 900,000 Gross profit 25% on cost, operating Expenses rs 90,000 Then operatin Ratio Will be -
(a) 10%
(b) 70%
(c) 50%
(d) 100%

15. Calculate proprietary ratio . If share capital rs 5,00,000: Non-current Assets s 22,00,000: Reserves & Surplus rs 3,00,000 current Assets rs 10,00,00

(a) 100%
(b) 70%
(c) 40%
(d) 25%

16. A transaction involving a decrease in Debt - Equity ratio & Increase in current ratio is -
(a) Issue of debentures against the purchase of fixed assets
(b) Redemption of preference shares for cash
(c) Issues of shares for cash
(d) Issues of Debetures for cash

17. Simran Ltd. has a proprietary ratio of 25% to maintain this ratio at 30% , management may -
(a) Increase Equity
(b) Reduce Debt
(c)Increase Equity & Increase Debt
(d) Increase Equity & reduce Debt

18. A transaction invdving a decrease in both current ratio & Quick ratio is -
(a) Sale of Non-current Assets & fixed Assets
(b) Sale of stock - in- Trade at loss
(c)Cash payment of a current liability
(d) Purchase of stock in trade on credit

19. Working capital is the
(a) Difference between current Assets & Fixed Assets
(b) Difference between current Assets & current Liabilities
(c)Cash and bank balance
(d) Capital Borrowed from the banks

20. Cost of revenue from operations -
(a) Purchase - closing inventory
(b) Revenue from operations - closing inventory
(c)Revenue from operations - Gross profit
(d) revenue from operations - Net profit

21. State whether the following statement are true / false -
(a) In calculating Debt - Equity ratio , all external debts atre Considered
(b) In Debt to total Assets Ratio, debt include only long term borrowings & long term provision.
(c)Debit balance is surplus, i.e. balance in statement of profit & loss is not deducted to calulated share holder funds to calculate Debt - Equity ratio.
(d) Loose tools spare parts are excluded to calculate working capital while calculating working capital turnover ratio .
(e) The formula for Trade payables turnover ratio is net credit purchases / Average trae receivables.

22. Fill in the blanks with appropriate words -
(a) _____ establishes the no. of times amount invested to trade recevables is turned over in a year in relation to revenue from operation
(b) Gross profit + Other income – _____ = Net profit
© _____ & Operating profit ratio are complimentary to each other
(d) trade payable is the sum total of creditors & _____
(e) Debit balnce is surplus i.e, Balnce in statement of profit & loss is deducted to calculate _____ to calculate Debt - Equity ratio .

Exercise

1. Calculate current ratio from the foll. Inf-

Particular		Particular	
Total Assets	3,00,000	Non current Liabilities	1,90,000
FA (Tangible)	100000	Non current investment	1,60,000
Shareholder`s funds	90,000		

Hint - CA = TA-FA-Non CI
CL = TA - Shareholder`s funds
- Non current liabilities

2. Calculate current ratio -
Working capital - rs ,150,000
Total Liabilities other then shareholder`s funds) - rs 3,8,5,000
Long term debits - rs 2,85,00

3.Working capital rs 36000
Current ratio 2:8:1
Inventory rs 16000
Calculate current Assets, current Liabilities & Quick ratio
(Hint = WC = CA-CL
Quick Assets = Current Asset - Inventory)

4. Calculate working capital turnover ratio from the following information -
Revenue from operations rs 1200,000
Current Assets rs 500,000
Total Assets rs 10,00,000
Non - current Liabilities rs 4,00,000
Shareholder`s funds rs 4,00,000
(Hint - Current Assets = Total Assets - Non-CL - Sharehoder`s fund

5. Calculate Trade payables Turnover ratio -

op, sundry Creditors	rs 80,000	Closing sundry creditors	rs 90,000
op, Bill Payable	rs 10,000	CL Bill payable	rs 20,000
purchase	rs 10,00,000	cash purchase	rs 3,28,000
purchase returns	rs 72,000		

Hint - Net cr. purchas = purchase - PR - cash purchase

6. Calculate inventory turnover ratio from the folll inf-
Net sales rs 40,000
Average inventory rs 5500
Gross loss on sales is 10%

(Hint - Cost of revenue from operation = Net sales + Gross loss)

7. Calculate proprielary ratio from the foll. inf-

Long terms Debt rs 32,00,000
Working Capital rs 4,00,000
Current Assets rs 20,00,000
shareholder`s funt 18,00,000
Reserves & surplus rs 2,00,000

(Hint - Total Assets = shareholder`s funds + Long term Debt
+ Current Liab.)

8. Calculated Gross profit ratio from the foll-

Cash sales = 25% total sales
= Purchase = rs 6,90,000
credit sales = rs 6,00,000

Excess of closing inventory over opening inventory = rs 50,000

(Hint- COGS = Purchase + change in inventories
Purchase - Excess of closing inventory pver opening inventory)

9. Calculate operating ratio from the fall-

Revenue from operation = rs 8,00,000
Gp = 25% Cost
Setting Expense = 1,35,000
Administraive Expense = rs 93,000

10. Calculate operating profit Ratio from the following:

Revenue from Operations	47,99,600
COGS	24,40,200
Weges	50,98,00
Office & Administrative Expenses	4,50,400
Setting & Distribution expenses	2,51,200
interest on loan	30,000
Loss by theft	18,000
Income from investment	60,000

(Hint- operating profit = Revenue from oprations - COGS -Office Administrative Expenses - selling & Distribute Expense

11. Gross profit ratio of a company was 25% . Its cash Sales were rs2,00,000 & credit sales were 90% of the total sale If the indirect expenses of the company were rs 20,000, Calculate - Net profit Ratio.

(Hint - Net profit = Gross Profit - Intired Expenses)

12.Calculate Total Asset to Debt Ratio -

Fixed Aset (Gross) 10,00,000
Accumulated Depreciation 500,000
Non - current investment 1,50,000
Long term loans & Advance 1,00,000
Current Assets 4,50,000
Total Debt 75,000
Sundry Creditors 25,000
Expenses Payable 25,000
Bill payable 25,000
Short term bank loan 50,000

13. Calculate (a) Net Profit Ratio
(b) Debt - Equity Ratio
(c) Quick Ratio

Given Information -

Paid up capital	20,00,000
Capital reserve	20,00,000
9% Debentures	8,00,000
Net Revenue from Opertions	14,00,000
Gross profit	8,00,000
indirect Expenses	2,00,000
Current Assest	4,00,000
Current Liabilities	3,00,000
Opening Inventory	50,000

Closing inventory - 20% more than opening inventory

14. Calculate RoI from the foll -

Net profit after tax = rs 650,000 ; 12.5% Convertible Debent = rs 8,00,000 ; Income Tax = 50% ; Fixed Assets at cost = 24,60,000 ; Depreciation Reserve = rs 4,60,000 ; Current Asset = rs 15,00,000 ; Current Libilities = rs 7,00,000

15. Calculate (a) Gross profit ratio
(b) Working capital Turnover ratio
(c) Proprietary ratio

Information-

Paid up capital	8,00,000
current Assets	5,00,000
Credit Revenue from operation	3,00,000
Cash revenue from operations	75% of credit sales
9% Debentures	3,40,000
Current Liabilities	2,90,000
Cost of revenue From operation	6,80,000

16. A company has a loan rs 20,00,000 as part of its capital Employed. The interest payable on loan is 15% &the RoI of the company is 25% The rate of income Tax is 40%. What is the gain to the shareholders due to the loan raised by the company?
(Net Gain = Net profit before int. & - Interest - Tax tp shareholders)

Things to Remember

- What is a Ratio?

  It is an arithmetical relationship between 2 variables.

- What is Accounting Ratio?

  It is an arithmetical relationship between 2 accounting variables.

- In how many ways a Ratio may be expressed

  1. Pure
  2. Times
  3. %
  4. Fraction

- Give two objectives of Ratio Analysis

  1. To find out the weak areas of business
  2. To help in formulation of plans for future

- List two uses of Accounting Ratios

  1. To Analyse the financial statements
  2. To simplify the Accounting Data

- Write two limitations of Accounting Ratios

  1. Ignoring Price level changes
  2. Ignoring qualitative aspect

- Liquidity Ratios are also known as short term solvency Ratios
- List two Ratios included in liquidity Ratios

  2. Current Ratio
  3. Quick Ratio

- Current Ratio is also known as – working capital Ratio
- Quick Ratio is also called as—Acid test Ratio or Liquid Ratio

  Write formula for working capital Ratio

  Working capital Ratio = $\frac{Current\ Assets}{Current\ Liabilities}$

- What are current Assets?

  Assets which may be converted into cash or cash equivalent within, 12 months from the date of Balance sheet or operating cycle.

- What are current liabilities?

  Liabilities which are to be paid within 12 months from the date of Balance sheet or operating cycle.

- Give examples of current liabilities?

  Short term borrowing(including Bank overdraft), trade payables(Bills payables and sundry creditors),other current liabilities.

- What are liquid Assets?

  These assets which can be converted into cash or cash equivalents within short period of time.

- Give examples of Liquid Assets

  Current investments, trade receivables, cash and cash equivalents, short term loans and advances.

- What do you mean by solvency Ratios?

  Those ratios which show whether the business will be able to pay its long term commitment/ payments on time.

- How can we calculate debt?

  Debt = long term borrowings

  +long term provisions

  OR

  = Total Debt-current liabilities

- How to deal with debit balance of statement of P&L account?

  It is to be deducted from equity /shareholders' funds

- What are long term provisions?

  Provisions for those liabilities to be paid after 12 months from the date of balance sheet or after operating cycle.

- Give examples of long term provisions?

  Employees benefit expenses like provision for gratuity, provision for warranty.

- Activity Ratios are also known as performance Ratios/ turnover Ratios.

- How to deal with change in inventory Add change in inventory if opening inventory>closing inventory.

  Subtract change in inventory if opening inventory<closing inventory.

- Give a reason for ↑ or ↓ in gross profit Ratio.

  ↑Higher selling price with constant cost of revenue from operation results in in gross profit ratio.

  ↓Higher cost of revenue from operation with constant selling price results in gross profit ratio.

- Give examples of non-operating incomes: interest received, dividend received, profit on sale of fixed assets.
- Give examples of non-operating expenses: Interest on long term loans, loss on sale of non-current assets.