

CBSE Test Paper 03

Ch-10 Statement Analysis Tools and Accounting Ratios

1. If we deduct current liabilities from current assets, we get_____
 - a. Actual profit
 - b. Reserves and surplus
 - c. Fixed Assets
 - d. Working Capital
2. While preparing Statement of Profit and Loss , net sales is Recorded as:
 - a. Other income
 - b. Revenue from operations
 - c. Other Expenses
 - d. Finance Cost
3. Long term funds employed in the business are also known as_____
 - a. Investments
 - b. Capital Employed
 - c. Share Capital
 - d. Long term borrowings
4. Return on investment ratio is calculated by
 - a. $\frac{\text{Profit before Interest, Tax}}{\text{Capitalemployed}} \times 100$
 - b. $\frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capitalemployed}} \times 100$
 - c. $\frac{\text{Profit before Interest}}{\text{Capitalemployed}} \times 100$
 - d. $\frac{\text{Gross Profit}}{\text{Capitalemployed}} \times 100$
5. Gross Profit Ratio and Net Profit Ratio is calculated under-----
 - a. Activity Ratio
 - b. Solvency Ratio
 - c. Profitability Ratios
 - d. Liquidity Ratio
6. Give two uses of Ratio Analysis.
7. Describe any two limitations of Ratio Analysis.

8. State any two limitations of ratio analysis.
9. X Ltd has a debt Equity Ratio at 3:1. According to the Management, it should be maintained at 1:1. What are the two choices to do so?
10. Give some examples of Non-operating expenses.
11.
 - i. What is meant by 'activity ratios'?
 - ii. From the following information calculate inventory turnover ratio, revenue from operations Rs. 16,00,000, average inventory Rs. 2,20,000, gross loss Rs.80,000
12. Prepare a comparative statement of Profit and Loss from the following information extracted from the statement of Profit and Loss for the year ended 31st March 2017 and 2018.

Particulars	2017-18	2016-17
Revenue from operations	(Rs.)12,00,000	(Rs.)10,00,000
Other income (% of Revenue from operations)	25%	25%
Employee benefit expenses (% of total Revenue)	40%	30%
Tax Rate	40%	40%

13. From the following calculate the 'gross profit ratio' and 'working capital turnover ratio'.

Information	Amt (Rs.)
Revenue from operations	30,00,000
Cost of revenue from operations	20,00,000
Current assets	6,00,000
Current liabilities	2,00,000
Paid-up share capital	5,00,000

14. From the following balance sheets of Royal Industries Ltd. as at 31st March, 2019 prepare comparative balance sheet:

	Particulars	31st March 2019 (Rs.)	31st March 2018 (Rs.)
I.	Equity and liabilities		
	Shareholders funds		
	(a) Share capital:		
	Equity share capital	10,00,000	5,00,000
	(b) Reserves and surplus	1,00,000	1,00,000
	2. Non-current liabilities		
	Long-term borrowings	2,00,000	3,00,000
	3. Current liabilities		
	Trade payables	2,00,000	1,00,000
	Total	15,00,000	10,00,000
II.	Assets		
	1. Non-current assets		
	(a) Fixed assets:		
	(i) Tangible assets	8,00,000	4,00,000
	(ii) Intangible assets	2,00,000	2,00,000
	(b) Non-current investments	2,00,000	2,00,000
	2. Currents assets		
	(a) Inventories	2,50,000	1,50,000
	(b) Cash and cash equivalents	50,000	50,000
	Total	15,00,000	10,00,000

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Answer

1. d. Working Capital, **Explanation:** Formula of Calculating Working Capital:
Working Capital = Current Assets – Current Liabilities
2. b. Revenue from operations, **Explanation:** Money generated by the company from its main operation can be termed as revenue
3. b. Capital Employed, **Explanation:** Long term funds employed in the business are also known as Capital Employed. i.e. Share capital + Reserves and Surplus + long term borrowings + Long term provisions
4. b.
$$\frac{\text{Profit before Interest, Tax and Dividend}}{\text{Capitalemployed}} \times 100$$

Explanation: ROI measures the amount of return on an investment relative to the investment's cost.

5. c. Profitability Ratios, **Explanation:** Profitability ratios are used to assess a business's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period of time.
6. i. It helps the management to evaluate its own performance with the performance of other business in the same area/industry or with its past performances.
ii. It helps to assess and evaluate the financial position, profitability, efficiency and the strength of the business.
7. i. Ratio Analysis becomes less effective due to price level changes.
ii. Personal bias and different accounting policies also affect the calculation of ratios.
Comparison not possible if different firms adopt different accounting policies.
8. The two limitations of ratio analysis are
 - i. Accounting ratios may be misleading in the absence of absolute data.
 - ii. Comparison not possible if different firms adopt different accounting policies.

9. The Two choices to maintain Debt Equity ratio at 1:1 are:

- i. To increase the Equity by Issue of Equity shares or Preference shares.
- ii. To reduce the debt by payment of Long term loans or by Redemption of debentures.

10. **Non-operating expenses:**

- Finance cost i.e., the cost, interest, and other charges involved in the borrowing of money.
- Depreciation
- Loss on sale of fixed assets
- Loss by fire, theft and embezzlement (theft or misappropriation of funds) etc.

11. i. Activity ratios show how efficiently the enterprise uses its available resources. These ratios are also known as turnover ratios or performance ratios. The various activity ratios are inventory turnover ratios, trade receivables or debtors turnover ratio, trade payables or creditors turnover ratio, working capital turnover ratio.

ii. Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}} = \frac{16,80,000}{2,20,000} = 7.64 \text{ times}$

*Cost of Revenue from Operations = Revenue from Operations + Gross Loss
= 16,00,000 + 80,000 = Rs. 16,80,000

12. **Comparative Income Statement**

Particulars	2017	2018	Absolute Change	Percentage Change
	(Rs.)	(Rs.)	(Rs.)	(%)
I. Revenue from operations	10,00,000	12,00,000	2,00,000	20
II. Other income	2,50,000	3,00,000	50,000	20
III. Total Revenue	12,50,000	15,00,000	2,50,000	20
IV. Employee benefit expenses	3,75,000	6,00,000	2,25,000	60
V. Profit before Tax (III-IV)	8,75,000	9,00,000	25,000	2.86

Less: Tax	3,50,000	3,60,000	10,000	2.86
Profit after Tax	5,25,000	5,40,000	15,000	2.86

13. i. Gross profit ratio establishes the relationship between gross profit and revenue from operations. This ratio shows the average margin on goods sold.

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}^*}{\text{Revenue from Operations (Net sales)}} \times 100$$

$$= \frac{10,00,000}{30,00,000} \times 100 = 33.33\%$$

$$\begin{aligned} \text{*Gross Profit} &= \text{Revenue from Operations} - \text{Cost of Revenue from Operations} \\ &= 30,00,000 - 20,00,000 = \text{Rs. } 10,00,000 \end{aligned}$$

- ii. Working capital turnover ratio shows the number of times a unit of rupee invested in working capital produces sales.

$$\begin{aligned} \text{Working Capital Turnover Ratio} &= \frac{\text{Revenue from Operations (Net sales)}}{\text{Working Capital}^*} \\ &= \frac{30,00,000}{4,00,000} = 7.5 : 1 \end{aligned}$$

$$\begin{aligned} \text{*Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\ &= 6,00,000 - 2,00,000 = \text{Rs. } 4,00,000 \end{aligned}$$

14. **Comparative Balance Sheet**

Particulars	31.03.2018	31.03.2019	Absolute change	Percentage change
	Rs.	Rs.	Rs.	%
	(A)	(B)	(C) = (B-A)	(D) = (C/A) x 100
I. Equity and liabilities				
1. Shareholders funds:				
(a) Share capital	5,00,000	10,00,000	5,00,000	100
(b) Reserves and Surplus	1,00,000	1,00,000		
2. Non-current liabilities:				

(a) Long-term borrowings	3,00,000	2,00,000	(1,00,000)	(33.33)
3. Current liabilities				
(a) Trade payables	1,00,000	2,00,000	1,00,000	100
	10,00,000	15,00,000	5,00,000	50
Assets				
1. Non-current assets:				
(a) Fixed assets:				
Tangible assets	4,00,000	8,00,000	4,00,000	100
Intangible assets	2,00,000	2,00,000		
(b) Non-current investments	2,00,000	2,00,000		
2. Currents assets:				
(a) Inventories	1,50,000	2,50,000	1,00,000	66.67
(b) Cash and cash equivalents	50,000	50,000		
	10,00,000	15,00,000	5,00,000	50