

CBSE Test Paper 05
Ch-10 Statement Analysis Tools and Accounting Ratios

1. Payment of outstanding liabilities will:

- a. Reduce current liabilities
- b. Both
- c. None of these
- d. Reduce total current assets

2. Match the following

a) Operating profit ratio	i) Relationship between operating profit and net sale
b) Operating ratio	ii) Relationship between gross profit to net sales
c) Gross profit	iii) Relationship between operating cost and net sale

- a. a(i), b(iii), c(ii)
- b. a(iii), b(i), c(ii)
- c. a(ii), b(iii), c(i)
- d. a(i), b(ii), c(iii)

3. Quick Assets do not include:

- a. Inventories
- b. Cash
- c. Bank
- d. B/R

4. The definition, The term accounting ratio is used to describe significant relationship which exist between figures shown in a balance sheet, in a profit and loss account, in a budgetary control system or in a any part of the accounting organization is given by

- a. Lord Keynes
- b. J. Betty
- c. Biramn and Dribin
- d. None of these

5. From the following, calculate Inventories turnover ratio— Net Revenue from operations –₹2,00,000 Gross Profit = 25% , Opening Inventories = ₹5000, Inventories at the end -₹15000

- a. 10 times
- b. 25 times
- c. 15 times
- d. 5 times

6. What are the Current Assets?
7. What does 'Creditors Turnover Ratio or Trade Payable Ratio' indicate?
8. What is Working Capital Turnover Ratio?
9. What does Gross Profit Ratio indicate?
10. What do you mean by 'Ratio Analysis'?
11. Compute debt-equity ratio, proprietary ratio, and total assets to debt ratio from the following information:

Equity Share Capital	2,00,000
12% Preference Share Capital	3,00,000
Reserves and Surplus	2,50,000
The balance of Statement of Profit and Loss	1,50,000
10% Debentures	10,00,000
Loan from IDBI	6,00,000
Current Liabilities	6,80,000
Net Fixed Assets	21,00,000
Long Term Investment	2,00,000
Current Assets	8,80,000

12. i. Compute 'working capital turnover ratio' from the following information Cash revenue from operations Rs. 1,30,000, credit revenue from operations Rs. 3,80,000, returns from revenue from operations Rs. 10,000, liquid assets Rs. 1,40,000, current liabilities Rs. 1,05,000 and inventory Rs. 90,000.
- ii. Calculate 'debt equity ratio' from the following information

Total assets Rs. 3,50,000, total debt Rs. 2,50,000 and current liabilities Rs. 80,000.

13. Calculate: (i) Gross Profit Ratio, (ii) Operating Ratio and (iii) Inventory Turnover Ratio from the following:

Particulars	(Rs.)
Opening Inventory	3,00,000
Closing Inventory	4,20,000
Purchases	14,00,000
Wages	3,70,000
Carriage Inwards	1,50,000
Administrative Expenses	84,000
Selling Expenses	36,000
Revenue from Operations	24,00,000

14. The Current Ratio of a Company is 2: 1. State, giving reasons which of the following transactions would (i) improve, (ii) reduce or (iii) not alter, the current ratio:
- Repayment of a Current Liability
 - Purchasing goods on credit
 - Sale of an Office Equipment for Rs. 4,000 (Book Value Rs. 5,000)
 - Sale of goods for Rs. 11,000 (Cost Rs. 10,000)
 - Payment of Dividend already declared.

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Answer

1. b. Both, **Explanation:** Payment of outstanding liabilities will decrease cash balance and outstanding liabilities balance also. So both current assets and liabilities will decrease
2. a. a(i), b(iii), c(ii), **Explanation:** The operating profit ratio indicates how much profit a company makes after paying for variable costs of production such as wages , raw materials etc. It is expressed as a percentage of sales and shows the efficiency of a company controlling costs and expenses associated with business operations Operating ratio is a company's operating expenses as a percentage of revenue.
Gross profit ratio is used to assess a company's financial health and business model by revealing the proportion of money left over from revenues after accounting for the cost of goods sold
3. a. Inventories, **Explanation:** Quick assets include a company's most liquid assets which can be easily converted into cash. Inventories have less liquidity and therefore not included in quick assets.
4. b. J. Betty, **Explanation:** J. Betty
5. c. 15 times, **Explanation:** Inventory Turnover Ratio = 15 Times
Cost of Revenue from operations = 2,00,000 – (25% of Net Revenue from operations) = 1,50,000
Average inventory = $5,000 + 15,000 = 20,000 / 2 = 10,000$
Inventory turnover ratio = $1,50,000 / 10,000 = 15$
6. **Current Assets** include assets which are expected to be realised within a short period (generally within a year).
7. This ratio indicate the pattern of payment of accounts payable. As we know that accounts payable are concerned with credit purchase, so this ratio establishes a relationship between credit purchase and average trade payable during the year. This ratio indicate the speed with which amount is being paid to trade payables.

$$8. \text{ Working Capital Turnover Ratio} = \frac{\text{Net Sales}}{\text{Working Capital}}$$

It reveals how efficiently working capital has been utilised in making sales.

9. It indicates the profit earning capacity of the organisation with reference to its sales.
10. Ratio Analysis is a financial statement analysis tool that is used to measure the financial status (financial strengths and weaknesses) of a business firm in several key areas.

11. (i) Debt-Equity Ratio

$$= \frac{\text{Long - Term debts or Loans}}{\text{Shareholders' Fund}} = \frac{16,00,000}{9,00,000} = \mathbf{1.78 : 1}$$

Working Note :

Long-Term Debts = 10% Debentures + Loan from IDBI

= Rs. 10,00,000 + 6,00,000 = **Rs. 16,00,000**

Shareholders' Fund = Equity Share Capital + 12 % Preference Share Capital + Reserves and Surplus

= 2,00,000 + 3,00,000 + 2,50,000 + 1,50,000 = **Rs. 9,00,000**

(ii) Proprietary Ratio

$$= \frac{\text{Equity or Shareholders' Funds}}{\text{Total Assets}} = \frac{9,00,000}{31,80,000} = \mathbf{0.28 : 1}$$

Working Note :

Total Assets = Investment + Current Assets + Fixed Assets

= 2,00,000 + 8,80,000 + 21,00,000 = **Rs. 31,80,000**

(iii) Total Assets to Debt Ratio

$$= \frac{\text{Total Assets}}{\text{Long - Term Debts}} = \frac{31,80,000}{16,00,000} = \mathbf{1.99 : 1}$$

12. 1. Calculation of Working Capital Turnover Ratio =

Revenue from operations / Working Capital

= (500000 / 125000) = 4 times

Working notes:

Revenue from Operations = Cash Revenue from Operations + Credit Revenue from

Operations - Returns from Revenue from Operations

$$= 1,30,000 + 3,80,000 - 10,000$$

$$= \text{Rs. } 5,00,000$$

$$\text{Current Assets} = \text{Liquid Assets} + \text{Inventory} = 1,40,000 + 90,000 = \text{Rs. } 2,30,000$$

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities} = 2,30,000 - 1,05,000 = \text{Rs. } 1,25,000$$

$$\text{2. Calculation of Debt Equity Ratio} = (\text{long-term debt/equity or shareholders fund}) = (170000/100000) = 1.7 : 1$$

Working notes:

$$\text{Long-term Debt} = \text{Total Debts} - \text{Current Liabilities}$$

$$= 2,50,000 - 80,000$$

$$= \text{Rs. } 1,70,000$$

$$\text{Equity or Shareholders' Funds} = \text{Total Assets} - \text{Total Debt}$$

$$= 3,50,000 - 2,50,000$$

$$= \text{Rs. } 1,00,000$$

13. (i) Gross Profit Ratio

$$= \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{24,00,000 - 18,00,000}{24,00,000} \times 100$$

$$= 25\%$$

Working Note:-

$$\text{Gross Profit} = \text{Revenue from Operations} - \text{Cost of Revenue from Operations}$$

$$\text{Here, Revenue from Operations} = 24,00,000$$

$$\text{And Cost of Revenue from Operations} = \text{Opening Inventory} + \text{Purchases} + \text{Wages} + \text{Carriage Inwards} - \text{Closing Inventory}$$

$$= 3,00,000 + 14,00,000 + 3,70,000 + 1,50,000 - 4,20,000$$

$$= 18,00,000$$

(ii) Operating Ratio

$$= \frac{\text{cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Net Revenue from Operations}} \times 100$$

$$= \frac{18,00,000+1,20,000}{24,00,000} \times 100$$

= **80%**

Working Note:-

Operating Expenses = Administrative Expenses + Selling Expenses
 = 84,000 + 36,000 = Rs. 1,20,000

(iii) Inventory Turnover Ratio

$$= \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$= \frac{18,00,000}{3,60,000}$$

= **5 times**

Working Note:-

$$\text{Average Inventory} = \frac{3,00,000+4,20,000}{2} = \text{Rs. } 3,60,000$$

14. Current Ratio = 2 : 1

Let Current Assets = Rs. 2,00,000

So, Current Liabilities = Rs. 1,00,000

- a. Repayment of a Current Liability : Suppose, a current liability amounting to Rs 50,000 is repaid:

$$\frac{2,00,000-50,000(\text{Cash})}{1,00,000-50,000(\text{Current Liability})} = \frac{1,50,000}{50,000} = 3: 1$$

∴ Current ratio is improved.

- b. Purchasing Goods on Credit: Suppose, goods for Rs 25,000 is purchased on credit:

$$\frac{2,00,000+25,000(\text{Stock})}{1,00,000+25,000(\text{Creditors})} = \frac{2,25,000}{1,25,000} = 1.8: 1$$

∴ Current ratio is reduced

- c. Sale of an Office Equipment for Rs 4,000 (Book Value Rs. 5,000): Sale of Office Equipment results in an increase in Cash Balance by Rs 4,000:

$$\frac{2,00,000+4,000(\text{Cash})}{1,00,000} = \frac{2,04,000}{1,00,000} = 2.04: 1$$

∴ Current Ratio is improved.

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- d. Sale of Goods for Rs 11,000 (cost Rs 10,000):

$$\frac{2,00,000 + 11,000(\text{Cash}) - 10,000(\text{Stock})}{1,00,000} = \frac{2,01,000}{1,00,000} = 2.01: 1$$

∴ Current Ratio is improved.

- e. Payment of Dividend Already Declared: Suppose, proposed dividend amounting to Rs 10,000 is included in current liabilities. It is now paid off. It will reduce the amount of current liabilities on the one hand and on the other hand, it will also reduce the current assets :

$$\frac{2,00,000 - 10,000(\text{Cash})}{1,00,000 - 10,000(\text{Proposed Dividend})} = \frac{1,90,000}{90,000} = 2.11: 1$$

∴ Current Ratio is improved.