CBSE Test Paper 04

Ch-10 Statement Analysis Tools and Accounting Ratios

a. While calculating capital employed what should be subtracted
   a. Reserves and surplus
   b. Fictitious assets
   c. Share capital
   d. Long term loans
b. The Current Ratio of Vinod Limited is 2:1. Company purchased a Computer by paying cash for office use. What will be the effect on Ratio?
   1. Increase
   2. Decrease
   3. No change
   4. Nil
c. Under __________, expenses are expressed as percentage of Revenue from Operations.
   a. Comparative balance sheet
   b. Comparative Income Statement
   c. Statement of P/L
   d. Common Size Statement
d. Loss on sale of investment is:
   a. Other expenses
   b. Depreciation
   c. Amortisation Expense
   d. Cost of material consumed
e. Ratios which are used to measure the profitability are called ----------
   a. Activity ratio
   b. Profitability ratio
   c. Liquidity ratio
   d. Solvency ratio

f. The Debt Equity Ratio of a company is 0.8:1. State whether the long term loan obtained by the company will improve decrease or not change the ratio.

g. The debt to equity ratio of a company is 8: 1. State giving reason whether the improves, declines or does not change because of bonus shares.

h. Define working capital.

i. What are the other names of liquid ratio?

j. As a creditor of a company, list any two ratios that you would like to calculate to analyse the financial position of the company.

k. Opening Inventory: Rs. 60,000; Closing Inventory: Rs. 1,00,000; Inventory turnover ratio 8 times; Selling price 25% above cost; Calculate the Gross Profit Ratio.

l. OM Ltd. has a current ratio of 3.5: 1 and a quick ratio of 2: 1. If the excess of current assets over quick assets as represented by inventory is Rs. 1,50,000, calculate current assets and current liabilities.

m. From the following information calculate Proprietary Ratio and Total Assets to Debt Ratio

Balance Sheet of ABC Ltd.
As at

Particulars	**Note No.**	**Figure for Current Years (Rs.)**
1. EQUITY AND LIABILITIES		...
(1) Shareholders' funds		...
(a) Share capital		4,50,000
(b) Reserves and surplus		1,80,000
(2) Non-current Liabilities		...
Long-term borrowings		75,000
(3) Current liabilities		...
Trade payables		45,000
Total		7,50,000
II. ASSETS		...

(1) Non-current assets		...
(a)Fixed assets		2,25,000
(b)Non-current investments		1,50,000
(2)Current Assets		...
Inventories		...
Total		7,50,000

n. Following is the balance sheets of Radha Ltd. as at 31st March, 2019:

	Particulars	Note	31st March 2019 (Rs.)	31st March 2018 (Rs.)
I.	**Equity and Liabilities**			
	1. Shareholders funds			
	(a) Share capital		15,00,000	10,00,000
	(b) Reserves and surplus		10,00,000	10,00,000
	2. Non-current liabilities			
	Long term borrowings		8,00,000	2,00,000
	3. Current liabilities			
	Trade payables		5,00,000	3,00,000
	Total			
II.	**Assets**			
	1. Non-current assets			
	Fixed assets:			
	(i) Tangible assets		25,00,000	15,00,000
	(ii) Intangible assets		5,00,000	5,00,000
	2. Current assets			

	(a) Trade receivables		6,00,000	3,50,000
	(b) Cash and Cash equivalents		2,00,000	1,50,000
	Total		38,00,000	25,00,000

You are required to prepare comparative balance sheet on the basis of the information given in the above balance sheets.

Answer

1. b. Fictitious assets, **Explanation:** Fictitious Assets (unamortized expenses) are subtracted while calculating capital employed: i.e. Share Capital + Reserves and Surplus + Long term borrowings – Fictitious Assets
2. b. Decrease, **Explanation:** Cash is paying so current assets will decrease as a result current ratio is also decrease.
3. d. Common Size Statement, **Explanation:** Common size statements is a statement in which each account is expressed as a percentage of the value of sales. This type of financial statement can be used to allow for easy analysis between companies or between time periods of a company
4. a. Other expenses, **Explanation:** The loss on sale of investment do not from part of operating cost. So will be taken in other expenses
5. b. Profitability ratio, **Explanation:** Profitability ratios are a class of financial metrics that 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. Debt Equity ratio = Debt / Equity. So Debt Equity Ratio will improve if There is a increase in long term debts.
7. The debt-to-equity (D/E) ratio is calculated by dividing a company’s total liabilities by its shareholder equity. Debt to equity ratio does not change because the issue of bonus shares means capitalisation profit. So it will not affect shareholder’s funds.
8. The capital of a business that is used in its day-to-day trading operations, calculated as the current assets minus the current liabilities. It is a measure of both a company's operational efficiency and its short-term financial position.
9. Acid-test ratio and Quick ratio.
10. i. Current Ratio - The current ratio is a liquidity ratio that measures a company's

ability to pay short-term obligations or those due within one year; and

ii. Quick Ratio - The quick ratio is an indicator of a company's short-term liquidity position and measures a company's ability to meet its short-term obligations with its most liquid assets.

11. **Gross Profit Ratio**

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

= $\frac{1,60,000}{8,00,000} \times 100$ = **20%**

Working Notes;

1. Average Inventory = $\frac{\text{Opening Inventory + Closing Inventory}}{2}$

= $\frac{60,000+1,00,000}{2}$

= $\frac{1,60,000}{2}$

= Rs. 80,000

2. Inventory Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

8 = $\frac{\text{Cost of Revenue from Operations}}{80,000}$

Cost of Revenue from Operations = Rs. 6,40,000

3. Gross Profit = 25% of Rs. 6,40,000 = Rs. 1,60,000

4. Revenue from Operations = Rs. 6,40,000+ Rs. 1,60,000 = Rs. 8,00,000

12. Let Current Liabilities = x

So, Quick Assets = 2x

And Current Assets = 3.5x

Inventory = Current Assets - Quick Assets

1,50,000 = 3.5x - 2x

1,50,000 = 1.5x

$\frac{1,50,000}{1.5}$ = x

x = Rs. 1,00,000

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

Current Assets = 3.5 x 1,00,000 = **Rs 3,50,000**

13. Proprietary Ratio = $\frac{\text{Equityor Shareholders' Funds}}{\text{Total Assets}}$

Shareholders' Funds = Share Capital + Reserves and Surplus = Rs. 4,50,000+Rs.1,80,000 = Rs. 6.30.000

Proprietary Ratio = $\frac{Rs.6,30,000}{Rs.7,50,000}$ = 0.84 : 1

Total Assets to Debt Ratio = $\frac{\text{Total Assets}}{Debt\text{ s or Long Term Liabilities}}$

$$= \frac{Rs.7,50,000}{Rs.75,000} = 10$$

Total Assets to Debt Ratio = 10 : 1

Note- In the balance sheet of a question the amount of Inventory is not written as it is not required while calculating the above ratios.

14. **Comparative Balance Sheet**

as at 31.03.2019

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. Share holders funds:				
(a) Share capital	1000000	1500000	500000	50
(b) Reserves and surplus	1000000	1000000	....	....
2. Non-current liabilities:				
Long term borrowings	200000	800000	600000	300
3. Current liabilities:				

Trade payables	300000	500000	200000	66.67
	2500000	**3800000**	**1300000**	52
II. Assets				
1. Non-current assets:				
Fixed assets:				
(i) Tangible assets	1500000	2500000	1000000	66.67
(ii) Intangible assets	500000	500000	....	....
2. Current assets:				
(a) Trade receivable	350000	600000	250000	71.43
(b) Cash and Cash Equivalent	150000	200000	50000	33.33
	2500000	**3800000**	**1300000**	52