

Accounting Ratios

Multiple Choice Questions (MCQs):

Question 1.

The two basic measures of operational efficiency of a company are

- (a) Inventory Turnover Ratio and Working Capital Turnover Ratio
- (b) Liquid Ratio and Operating Ratio
- (c) Liquid Ratio and Current Ratio
- (d) Gross Profit Margin and Net Profit Margin

▼ [Answer](#)

Answer: (a) Inventory Turnover Ratio and Working Capital Turnover Ratio

Question 2.

Acid Test ratio comes under:

- (a) Liquidity ratio
- (b) Solvency ratio
- (c) Profitability ratio
- (d) Activity ratio

▼ [Answer](#)

Answer: (a) Liquidity ratio

Question 3.

Current assets are those assets which are convertible into cash within:

- (a) One month
- (b) 6 months
- (c) 12 months
- (d) none of these

▼ [Answer](#)

Answer: (c) 12 months

Question 4.

Which of the following is not considered in the ratio analysis as per guidance notes?

- (a) Fixed Assets
- (b) Share capital
- (c) Other Non-current Assets
- (d) Non-current Assets

▼ [Answer](#)

Answer: (c) Other Non-current Assets

Question 5.

Which of the following will increase the current ratio where it is 2 : 1 ?

- (a) Payment to creditors
- (b) Conversions of receivables into cash
- (c) Purchase of goods on credit
- (d) Purchase of goods for cash

▼ [Answer](#)

Answer: (a) Payment to creditors

Question 6.

Long term solvency ratio is judged by which of the following ratio?

- (a) Debt equity ratio
- (b) Total assets turnover ratio
- (c) Liquidity ratios
- (d) Operating ratio

▼ [Answer](#)

Answer: (c) Liquidity ratios

Question 7.

Which of the following ratios provide solvency position of a business in the long run?

- (a) Liquidity Ratios
- (b) Solvency ratios
- (c) Profitability ratios
- (d) Turnover ratios

▼ [Answer](#)

Answer: (b) Solvency ratios

Question 8.

In debt equity ratio, debt refers to

- (a) Short term debts
- (b) Total debts
- (c) Shareholders' funds
- (d) Long term borrowings and long term debts

▼ [Answer](#)

Answer: (d) Long term borrowings and long term debts

Question 9.

Which of the following transactions will increase debt equity ratio which is 1 : 2?

- (a) Issue of shares for cash
- (b) Redemption of preference shares
- (c) Redemption of debentures
- (d) Conversion of debentures into shares

▼ [Answer](#)

Answer: (b) Redemption of preference shares

Question 10.

Interest coverage is equal to

- (a) Interest after interest but before tax / interest on debt
- (b) Interest before interest and tax / interest on debt
- (c) Interest after interest and debt / interest on debt
- (d) Interest on debt / Interest before interest and tax

▼ [Answer](#)

Answer: (b) Interest before interest and tax / interest on debt

Question 11.

Cost of revenue from operations is the difference between

- (a) Revenue from operations + Gross Profit
- (b) Revenue from operations – Gross Profit
- (c) Revenue from operations – Net profit
- (d) Revenue from operations + Net Profit

▼ [Answer](#)

Answer: (b) Revenue from operations – Gross Profit

State whether the following statements are true or false:

Question 12.

Issue of bonus shares will decrease the debt equity ratio.

▼ [Answer](#)

Answer: False

Question 13.

Buying of goods for cash will decrease current ratio.

▼ [Answer](#)

Answer: False

Question 14.

For calculating return on capital employed, net profit before interest is taken.

▼ [Answer](#)

Answer: True

Question 15.

Purchase of goods on credit will not change the current ratio.

▼ [Answer](#)

Answer: False

Question 16.

Working capital and net working capital are assumed to be one and same thing.

▼ [Answer](#)

Answer: True

Question 17.

Purchase of stock on credit will not affect quick ratio.

▼ [Answer](#)

Answer: False

Question 18.

The excess of revenue from operation over cost of revenue from operation is known as net profit.

▼ [Answer](#)

Answer: False

Question 19.

Conversion of debentures into equity results in decrease in debt equity ratio in case debt equity ratio is 1 : 2.

▼ [Answer](#)

Answer: True

Question 20.

Purchase of stock will decrease the inventory turnover ratio.

▼ [Answer](#)

Answer: True

Question 21.

Operating cost + operating profit = revenue from operations.

▼ [Answer](#)

Answer: True

[Fill in the blanks with correct word:](#)

Question 22.

The _____ ratios are primarily measure of return.

▼ [Answer](#)

Answer: Profitability

Question 23.

The _____ of a company is measured by its ability to pay short-term liabilities.

▼ [Answer](#)

Answer: Liquidity

Question 24.

_____ ratios are those ratios through which speed of various accounts converted into cash is measured.

▼ [Answer](#)

Answer: Activity

Question 25.

_____ are interested in the average collection period.

▼ [Answer](#)

Answer: creditors/receivables

Question 26.

While calculating current ratio, _____ are excluded from the list of current assets.

▼ [Answer](#)

Answer: loose tools and spares

Question 27.

While calculating working capital ratio, _____ is included in the current assets.

▼ [Answer](#)

Answer: loose tools and spares

Question 28.

Under net profit ratio, normally net profit is _____ taken.

▼ [Answer](#)

Answer: net profit after tax

Question 29.

Operating ratio + operating ratio = _____.

▼ [Answer](#)

Answer: 100

Question 30.

While calculating current ratio, trade receivables should be taken _____ (after / before) deducting provision for doubtful debts.

▼ [Answer](#)

Answer: after

Question 31.

While calculating working capital turnover ratio, trade receivables should be taken _____ (after / before) deducting provision for doubtful debts.

▼ [Answer](#)

Answer: before

One word Questions:

Question 32.

What will be the effect on current ratio if a bills payable is discharged on maturity? (CBSE SP 2019-20)

▼ [Answer](#)

Answer: The current ratio will increase

Question 33.

Debt Equity Ratio of a company is 1:2. Purchase of a Fixed asset for ₹ 5,00,000 on long term deferred payment basis will increase, decrease or not change the ratio?

▼ [Answer](#)

Answer: Increased

Question 34.

It is a simple arithmetical expression of relationship between two figures. Name the term.

▼ [Answer](#)

Answer: Ratio

Question 35.

The liquidity of a business firm is measured by its ability to satisfy its long-term obligations as they become due. Name a ratio used for this purpose.

▼ [Answer](#)

Answer: Current Ratio.

Question 36.

X Ltd. has a Debt-Equity Ratio at 3 : 1. According to the management it should be maintained at 1 : 1. What is the choice to do so?

▼ [Answer](#)

Answer: To increase the equity or reduce the debt.

Question 37.

How the solvency of a business is assessed by Financial Statement Analysis? (CBSE Delhi 2012).

▼ [Answer](#)

Answer: With the help of solvency ratios

Question 38.

Assuming that the debt to equity ratio is 1 : 2, state giving reason, whether the ratio will improve, decline or will have no change in case equity shares are issued for cash. (CBSE Foreign 2006)

▼ [Answer](#)

Answer: Decrease.

Question 39.

Debt to equity ratio of a company is 08 : 1. State whether long term loan obtained by the company will increase, decrease or not change the ratio. (CBSE Outside Delhi 2008)

▼ [Answer](#)

Answer: Increase.

Question 40.

Inventory Turnover ratio of a company is 3 times. State, giving reason, whether the ratio improve,

decline or do not change because of increase in the value of closing stock by ₹ 5,000. (CBSE Outside Delhi 2008)

▼ [Answer](#)

Answer: Decrease.

Question 41.

Trade Receivables Turnover Ratio of a company is 6 times. State with reason whether the ratio will improve, decrease or not change due to increase in the value of closing inventory by ₹ 50,000. (CBSE Foreign 2008)

▼ [Answer](#)

Answer: No change.

Question 42.

If a company has earned ₹ 10,00,000 as profit before interest and tax, ROI is 20%. State the capital employed in the company.

▼ [Answer](#)

Answer: ₹ 5,00,000

$$\text{Note ROI} = \frac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$\text{Capital Employed} = \frac{\text{Net Profit before Interest and Tax}}{20} \times 100$$

$$\text{Capital Employed} = ₹10,00,000 \times 5 = ₹ 50,00,000$$

Question 43.

What will be operating profit if operating ratio is 88.94? (CBSE Delhi 2009)

▼ [Answer](#)

Answer: Operating Profit = $100 - 88.94 = 11.06$

Question 44.

State with reason whether repayment of long-term loan will result in increase, decrease or no change of debt-equity ratio. (CBSE Outside Delhi 2010 Compt.)

▼ [Answer](#)

Answer: Decrease.

Question 45.

A company has Share Capital of ₹ 5,00,000, Reserves and Surplus of ₹ 2,00,000 and Debt Equity Ratio of 1.8 : 1. It has issued additional Share Capital of ₹ 2,00,000 for cash and bonus shares of ₹ 1,00,000. What will be new Debt Equity Ratio?

Ans.

▼ [Answer](#)

Answer: 1,4 : 1
