INDIAN SCHOOL AL WADI AL KABIR

Class: XII	**Department: Commerce**
Worksheet No: 1	**Topic: Ratio Analysis**

MCQs

1. What does the ratio of current assets/current liabilities show?

A. Asset usage B. Liquidity C. Profitability D. Return of capital employed.

2.Generally accepted standard current ratio is

A.1:1 B.5:1 C.2:1 D.0.5:1

3.The quick ratio is 1.5:1. A payment of advance rent of Rs.5,000 would:

A. Increase the ratio

B. Decrease the ratio

C. Not change the ratio

D. None of the above.

4.X Ltd. has current ratio 3.5:1 and quick ratio 2:1. The inventories are Rs.24,000. Current Assets will be:

A.50,000 B.48,000 C.65,000 D.56,000.

5.Shareholders fund-Rs.1,60,000; Total debt- Rs.3,60,000; Current Liabilities- Rs.40,000. The Total assets to debt ratios is

A.1.62:1 B.4:1 C.2.25:1 D.1.3:1

6.Net profit before tax but after interest is Rs.2,40,000. 15% Long Term debt 4,00,000.

Tax Rs.50,000. Shareholders fund-8,00,000

The ROI and ICR will be

ROI	ICR
A. 20%	4 times
B. 75%	5 times
C. 30%	3 times
D. 25%	5 times

7. The following groups of ratios are primarily measure risk:

A. liquidity, activity, and profitability B. liquidity, activity, and inventory C. liquidity, activity, and debt D. liquidity, debt and profitability

8. The _________ ratios are primarily measuring returns:

A. liquidity B. activity C. debt D. profitability

9. The _________ of business firm is measured by its ability to satisfy its short term

obligations as they become due:

A. activity B. liquidity C. debt D. profitability

10. _________ ratios are a measure of the speed with which various accounts are converted into revenue from operations or cash:

A. activity B. liquidity C. debt D. profitability

11. The two basic measures of liquidity are:

A. inventory turnover and current ratio B. current ratio and liquid ratio C. gross profit margin and operating ratio. D. current ratio and average collection period

12. The _________ is a measure of liquidity which excludes _______, generally the

least liquid asset:

A. current ratio, trade receivable B. liquid ratio, trade receivable C. current ratio, inventory

D. liquid ratio, inventory

13. The ___________ measures the activity of a firm's inventory.

A. trade receivables turnover B. inventory turnover C. liquid ratio

D. current ratio

14. State which of the following will lead to no change in Current Ratio when it is 1:1

(a) Cash paid to creditors (b) Bills payable discharged (c) Purchased goods for cash (d) All the above

15. From the following data calculate Current Liabilities:

Liquid Assets Rs. 37,500, Inventories Rs. 10,000, Prepaid Expenses Rs. 2,500, Working Capital Rs. 30,000

(a) Rs. 40,000 (b) Rs. 20,000 (c) Rs. 30,000 (d) Rs. 50,000

16. Which of the following ratio shows relationship between total assets and long-term debts of the enterprise?

(a) Debt Equity ratio (b) Proprietary ratio (c) Total Assets to Debt Ratio (d) Interest Coverage Ratio

17. From the following calculate Total Assets to Debt Ratio

Shareholder's Funds Rs. 14,00,000, Total Debts Rs. 18,00,000, Current Liabilities Rs. 2,00,000

(a) 1:1 (b) 2:1 (c) 0.5:1 (d) 3:1

18. From the following calculate Interest coverage ratio
Net profit after tax Rs 12,00,000; 10% debentures Rs 1,00,00,000; Tax Rate 40%

(a) 1.2 times (b) 3 times (c) 2 times (d) 5 times

19. Debt-Equity Ratio of Dhamaka Ltd is 3 : 1. Which of the following will result in decrease in this ratio?
(a) Issue of Debentures for Cash of ₹2,00,000.
(b) Issue of Debentures of ₹3,00,000 to Vendors from whom Machinery was purchased.
(c) Goods purchased on Credit of ₹1,00,000.
(d) Issue of Equity Shares of ₹2,00,000.

20. Explain the classification of ratios.

BOARD QUESTIONS FOR 3 MARKS

LIQUIDITY RATIOS

1. Calculate current ratio & acid test ratio from the following information:

LIABILITIES	AMT	ASSETS	AMT
Creditors	60,000	Stock	50,000
Bills Payable	40,000	Cash	30,000
Bank Overdraft	4,000	Debtors	40,000
		Bills Receivable	10,000
		Advance Tax	4,000

2. Calculate 'Liquid Ratio' from the following information:
Current Liabilities Rs. 50,000
Current Assets Rs. 80,000
Stock Rs. 25,000
Prepaid Expenses Rs. 5,000

3. X Ltd. has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by stock is Rs. 24,000, calculate current assets and current liabilities.

4. Calculate the current ratio from the following information:
Total Assets Rs.3,00,000 Fixed Assets Rs.1,60,000

Long-term Liabilities Rs.80,000 Investments Rs.1,00,000
Shareholders Fund Rs.2,00,000

5. From the following information calculate Current Ratio and Liquid Ratio

Equity Share Capital	24,000	Buildings	45,000
8% Debentures	9,000	Stock	12,000
Bank Overdraft	6,000	Debtors	9,000
Creditor	23,400	Cash in Hand	2,280
Provision for Taxation	600	Prepaid Expenses	720
Profit and Loss	6,000		

6. Current Ratio is 3.5:1. Working Capital is Rs. 9,00,000. Calculate the amount of Current Assets and Current Liabilities.

7. Shine Limited has a current ratio 4.5:1 and quick ratio 3:1; if the stock is 36,000, Calculate current liabilities and current assets.

8. The ratio of Current Assets (Rs. 3,00,000) to Current Liabilities (Rs. 2,00,000) is 1.5:1. The accountant of this firm is interested in maintaining a Current Ratio of 2:1 by paying some part of current liabilities. You are required to suggest him the amount of Current Liabilities which must be paid for this purpose.

9. A firm had Current Liabilities of Rs. 90,000. It then acquired Stock-in-trade at a cost of Rs. 10,000 on credit. After this acquisition, the Current Ratio was 2:1. Determine the size of the Current Assets and Working Capital after and before the inventories was acquired.

10. The current ratio is 2:1. State giving reasons which of the following transactions would improve, reduce and not change the current ratio:
(a) Repayment of current liability;
(b) Purchased goods on credit;
(c) Sale of an office typewriter (Book value – Rs. 4,000) for Rs. 3,000 only;
(d) Sale of merchandise (goods) costing Rs. 10,000 for Rs. 11,000;
(e) Payment of proposed dividend

11. The Quick Ratio of a company is 2:1. State, giving reason, which of the following would improve, reduce or not change the ratio:
(i) Purchase of Stock in trade for cash (ii) Cash collected from trade receivables (iii) Sale of stock in trade (costing Rs. 10,000) for Rs. 11,000 and (iv) Sale of an old furniture (Book value Rs. 10,000) for Rs. 9,000 (v) Payment of interim Dividend.

SOLVENCY RATIOS

12. Calculate Solvency Ratios, from the following information:
Total external liabilities Rs.5,00,000, Balance Sheet Total Rs.10,10,000, Current liabilities Rs.1,00,000 Fictitious Assets Rs.10,000

13. From the following information, calculate Debt Equity Ratio, Proprietary Ratio and Ratio of Total Assets to Debt.

Preference Share Capital Equity Share Capital Reserves and Surplus Secured Loans Current liabilities	1,00,000 3,00,000 1,10,000 1,50,000 50,000	Fixed Assets Investments Current Assets Preliminary Expenses	4,00,000 1,00,000 2,00,000 10,000

14. A. Calculate solvency ratios from the following information:
Total Assets Rs. 15,00,000
Current Liabilities Rs. 6,00,000
Total Debts Rs. 12,00,000

14. B. Calculate Debt to Equity Ratio :
Shareholder Funds - Rs. 2,00,000
Reserves and Surplus - Rs. 1,00,000
Total Debt - Rs. 4,00,000
Current Liabilities - Rs. 1,00,000

15. From the following information, calculate Proprietary Ratio, Debt-Equity Ratio and Total Assets to Debt Ratio:
Non-Current Assets Rs. 16,00,000 Current Assets Rs. 16,00,000
Long term Borrowings Rs. 10,00,000 Long term provisions Rs. 6,00,000
Current Liabilities Rs. 8,00,000

16. From the following information, compute Debt-Equity Ratio, Total Assets to Debt Ratio and Proprietary Ratio
Long term borrowings Rs. 2,00,000
Long term provisions Rs. 1,00,000
Current liabilities Rs. 50,000
Non-current Assets Rs. 3,60,000
Current Assets Rs. 90,000

17. The debt equity ratio of X Ltd. is 1:2. Which of the following would increase/decrease or not change the debt equity ratio?
(i) Further issue of equity shares
(ii) Cash received from debtors
(iii) Sale of goods on cash basis
(iv) Redemption of debentures
(v) Purchase of goods on credit.

18. From the following details, calculate interest coverage ratio:
Net Profit after tax Rs. 60,000; 15% Long-term Debt 10,00,000; and Tax Rate: 40%.

19. Net profit after Interest but before Tax Rs. 1,40,000, 15% Long Term Debt Rs. 4,00,000, Shareholder's funds Rs. 2,40,000, Tax Rate: 50%. Calculate ICR.

20. From the following information calculate ICR
Net profit after interest and tax Rs. 8,00,000, 10% debentures Rs. 9,00,000, Tax @ 50%, Capital Employed Rs. 2,00,00,000

21. From the following details obtained from the financial statements of JN Ltd., calculate Interest Coverage Ratio:
Net Profit after Tax Rs. 2,00,000, 12% Long Term Debt Rs. 40,00,000, Rate of Tax 40%

22. From the following information calculate Interest Coverage Ratio:
Profit after interest and tax - Rs. 4,97,000
Rate of Income tax - 30%
12% Debentures – Rs. 6,00,000

23. From the following information calculate debt to capital employed ratio
10% debentures Rs. 50,00,000, Long term loan Rs. 25,00,000, Capital Employed Rs. 2,00,00,000

24.15% Long Term Debt Rs. 4,00,000, Shareholder's funds Rs. 2,40,000. Calculate Debt to Capital employed ratio

25. Fixed Assets Rs. 75,00,000, Current Assets Rs. 40,00,000, Current Liabilities Rs. 25,00,000, 12% Debentures Rs. 18,00,000. Calculate debt to capital employed ratio.
26. Lala Ltd. and Bala Ltd. use different accounting policies for inventory valuation. These variations leave a big question mark on the cross-sectional analysis and comparison of these two firms was not possible. Identify the limitation of Ratio Analysis highlighted in the above situation. Also explain any two other limitations of Ratio Analysis apart from the identified above.

27. Debt to Capital Employed ratio is 0.3:1. State whether the following transactions, will improve, decline or will have no change on the Debt to Capital Employed Ratio. Also give reasons for the same.
(i) Sale of Equipments costing ₹ 10,00,000 for ₹ 9,00,000.
(ii) Purchased Goods on Credit for ₹ 1,00,000 for a credit of 15 months, assuming operating cycle is of 18 months.
(iii) Conversion of Debentures into Equity Shares of ₹ 2,00,000.
(iv) Tax Refund of ₹ 50,000 during the year.

28. a) A company had a liquid ratio of 1.5 and current ratio of 2 and inventory turnover ratio 6 times. It had total current assets of ₹8,00,000. Find out annual sales if goods are sold at 25% profit on cost.

b) Calculate debt to capital employed ratio from the following information. Shareholder funds ₹ 15,00,000 8% Debenture ₹ 7,50,000 Current liabilities ₹ 2,50,000 Non -current Assets ₹ 17,50,000 Current Assets ₹7,50,000.