Accounting Ratios

Standard difficulty · 20 questions · 40 marks · Time: 36 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. Current ratio is a:

(a) activity ratio **(b)** profitability ratio
(c) solvency ratio **(d)** liquidity ratio

2. The proprietary ratio is a:

(a) profitability ratio **(b)** activity (turnover) ratio
(c) solvency ratio **(d)** liquidity ratio

3. The net profit ratio is calculated as:

(a) revenue from operations ÷ working capital
(b) profit before interest and tax ÷ interest on long-term debt
(c) quick assets ÷ current liabilities
(d) profit after tax ÷ revenue from operations × 100

4. Maple Ltd has current assets of ₹3,60,000 and current liabilities of ₹1,44,000. What is its current ratio?

(a) 2.5 : 1 **(b)** 3 : 1 **(c)** 0.4 : 1 **(d)** 2.25 : 1

5. Meadow Ltd has current assets of ₹2,90,000 (including inventories of ₹90,000 and prepaid expenses of ₹1,000) and current liabilities of ₹1,16,000. What is its quick ratio?

(a) 2.22 : 1 **(b)** 2.5 : 1 **(c)** 1.72 : 1 **(d)** 2.49 : 1

6. Silverline Ltd has shareholders' funds of ₹9,00,000, long-term borrowings of ₹4,50,000 and current liabilities of ₹1,87,000. What is its debt-equity ratio?

(a) 0.29 : 1 **(b)** 2 : 1 **(c)** 0.5 : 1 **(d)** 0.71 : 1

7. Meadow Ltd: revenue from operations ₹34,00,000, gross profit 40% of revenue, opening inventory ₹4,07,000 and closing inventory ₹6,13,000. What is the inventory turnover ratio?

(a) 3.33 times **(b)** 6.67 times **(c)** 4 times **(d)** 6 times

8. Hilltop Ltd has revenue from operations of ₹36,00,000 and cost of revenue from operations of ₹21,60,000. What is the gross profit ratio?

(a) 60% **(b)** 40% **(c)** 66.67% **(d)** 45%

Section B — Short answer — 8 × 2 = 16 marks

9. What is an accounting ratio?

10. Write the formula for (a) the net profit ratio (b) the proprietary ratio

11. Northstar Ltd has a current ratio of 2.5 : 1 and working capital of ₹48,000. Find (a) the current assets (b) the current liabilities.

12. Hilltop Ltd has credit revenue from operations of ₹31,00,000, opening trade receivables of ₹5,34,000 and closing trade receivables of ₹10,16,000. Find (a) the trade receivables turnover ratio (b) the average collection period in days (365 days a year).

13. Northstar Ltd has a profit before tax of ₹1,05,000 after charging interest on long-term debt of ₹35,000. Find the interest coverage ratio.

14. Bluebell Ltd has shareholders' funds of ₹12,00,000, long-term borrowings of ₹18,00,000 and current liabilities of ₹1,60,000. Find the proprietary ratio, taking it as shareholders' funds ÷ total assets.

15. Skylark Ltd has revenue from operations of ₹39,00,000, cost of revenue from operations of ₹24,57,000 and operating expenses of ₹7,02,000. Find (a) the operating ratio (b) the operating profit ratio.

16. Riverstone Ltd has capital employed of ₹26,00,000. Its profit before tax is ₹3,15,000 and interest on long-term debt is ₹75,000. Find the return on investment.

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the classification of accounting ratios.

18. From Maple Ltd's balance sheet: shareholders' funds ₹8,00,000, long-term borrowings ₹3,20,000, current liabilities ₹1,48,000, current assets ₹3,70,000 (including inventories ₹1,35,000 and prepaid expenses ₹3,500). Find (a) the current ratio (b) the quick ratio (c) the debt-equity ratio.

19. Silverline Ltd has revenue from operations of ₹22,00,000, with gross profit at 20% of revenue. Opening inventory was ₹4,01,000 and closing inventory ₹4,79,000. Find (a) the cost of revenue from operations (b) the average inventory (c) the inventory turnover ratio (d) the gross profit.

20. Maple Ltd has revenue from operations of ₹48,00,000, profit after tax of ₹5,76,000 (tax 25%), interest on long-term debt of ₹28,000 and capital employed of ₹63,68,000. Find (a) the net profit ratio (b) the profit before interest and tax (c) the return on investment.

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Answer key

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Q	Answer	Working
1	**(d) liquidity ratio**	—
2	**(c) solvency ratio**	—
3	**(d) profit after tax ÷ revenue from operations × 100**	—
4	**(a) 2.5 : 1**	₹3,60,000 ÷ ₹1,44,000
5	**(c) 1.72 : 1**	(₹2,90,000 − ₹90,000 − ₹1,000) ÷ ₹1,16,000
6	**(c) 0.5 : 1**	₹4,50,000 ÷ ₹9,00,000
7	**(c) 4 times**	cost of revenue ₹34,00,000 − 40% = ₹20,40,000; average inventory ₹5,10,000
8	**(b) 40%**	(₹36,00,000 − ₹21,60,000) ÷ ₹36,00,000 × 100
9	**A mathematical relationship between two accounting figures, shown as a pure ratio, a percentage, times or a fraction.**	—
10	**(a) profit after tax ÷ revenue from operations × 100 (b) shareholders' funds ÷ total assets**	—
11	**(a) ₹80,000; (b) ₹32,000**	current liabilities = ₹48,000 ÷ (2.5 − 1); current assets = 2.5 × current liabilities
12	**(a) 4 times; (b) 91.25 days**	average receivables ₹7,75,000; ₹31,00,000 ÷ ₹7,75,000; 365 ÷ 4
13	**4 times**	profit before interest and tax ₹1,40,000 ÷ ₹35,000
14	**0.38 : 1**	total assets ₹31,60,000; ₹12,00,000 ÷ ₹31,60,000
15	**(a) 81%; (b) 19%**	(a) (₹24,57,000 + ₹7,02,000) ÷ ₹39,00,000 × 100 (b) 100 − 81
16	**15%**	profit before interest and tax ₹3,90,000 ÷ ₹26,00,000 × 100
17	**Liquidity (current, quick), solvency (debt-equity, total assets to debt, proprietary, interest coverage), activity (inventory, receivables, payables, working capital turnover) and profitability (gross profit, operating, net profit, return on investment).**	—
18	**(a) 2.5 : 1; (b) 1.56 : 1; (c) 0.4 : 1**	(a) ₹3,70,000 ÷ ₹1,48,000 (b) quick assets ₹2,31,500 ÷ ₹1,48,000 (c) ₹3,20,000 ÷ ₹8,00,000
19	**(a) ₹17,60,000; (b) ₹4,40,000; (c) 4 times; (d) ₹4,40,000**	(a) ₹22,00,000 × 80/100 (b) (₹4,01,000 + ₹4,79,000) ÷ 2 (c) ₹17,60,000 ÷ ₹4,40,000
20	**(a) 12%; (b) ₹7,96,000; (c) 12.5%**	(a) ₹5,76,000 ÷ ₹48,00,000 × 100 (b) ₹5,76,000 × 100/75 = ₹7,68,000; + ₹28,000 (c) ₹7,96,000 ÷ ₹63,68,000 × 100