

## Objective Type Questions 8.2

- Interest received by a finance company is shown as \_\_\_\_\_ in statement of profit and loss.  
(Revenue from operations/other income) (Fill in the blank with correct option)
- Net gain on sale of investment is shown as \_\_\_\_\_ in statement of profit and loss. (Fill in the blank)
- Match the following:
 

(i) Wages and Salary	(a) Other income
(ii) Interest on borrowings	(b) Other expenses
	(c) Finance Cost
	(d) Employees benefit expenses
- Match the following:
 

(i) Bank charges	(a) Other expenses
(ii) Dividend income	(b) Other income
	(c) Finance cost
	(d) Employees benefit expenses
- Match the following:
 

(i) Sale of stock in trade	(a) Other income
(ii) Interest received	(b) Revenue from operations
	(c) Reserve and surplus
	(d) None of the above
- Match the following:
 

(i) Salary or Wages	(a) Revenue form operation
(ii) Entertainment expenses	(b) Finance cost
	(c) Other expenses
	(d) Employee benefit expenses
- Match the following:
 

(i) Dividend received by a financial company	(a) Other income
(ii) Dividend received by a non-financial company	(b) Revenue from operations
	(c) Reserve and surplus
	(d) None of the above

## Objective Type Questions 8.3

- The most commonly used tools for financial analysis are: (Choose the correct alternative)

(a) Horizontal analysis	(b) Vertical analysis
(c) Ratio analysis	(d) All of the above
- Comparative statements are also known as: (Choose the correct alternative)

(a) Dynamic analysis	(b) Horizontal analysis
(c) Vertical analysis	(d) External analysis
- Comparative statements are the form of horizontal analysis. True/False? Give reasons.
- Common size statements and financial ratios are the two tools employed in vertical analysis. True/False? Give reasons.
- Ratio analysis is a tool for analysing the financial statements of any enterprise. True/False? Give reasons.
- Cash Flow Statement is a tool of financial statement analysis. True/False? Give reasons.
- Long-term borrowings are concerned about the ability of a firm to discharge its obligations to pay interest and repay the principal amount. True/False? Give reasons.
- Ratios help in comparison of a firm's results over a number of accounting periods as well as with other business enterprises. True/False? Give reasons.
- \_\_\_\_\_ are especially interested in the average payment period, since it provides them with a sense of the bill-paying patterns of the firm. (Choose the correct alternative)

(a) Customers	(b) Stockholders
(c) Lenders and suppliers	(d) Borrowers and buyers
- Comparative analysis is also known as \_\_\_\_\_ analysis, whereas common size analysis is also known as \_\_\_\_\_ analysis. (Fill in the blanks)
- The analysis of actual movement of money inflow and outflow in an organisation is called \_\_\_\_\_ analysis. (Fill in the blank)

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12. Match the following:
- |   |                     |
|---|---------------------|
| (i) Appraise the firm's ability to meet its short-term obligations. | (a) Lenders         |
| (ii) Interested about the firm's present and future profitability.  | (b) Trade payables  |
|   | (c) Finance manager |
|   | (d) Investors       |
13. It is possible to assess the profitability, solvency and efficiency of an enterprise through the technique of \_\_\_\_\_ (Fill in the blank)  
(ratio analysis/cash flow analysis).
14. The financial statements are prepared on the basis of accounting concept, as such, it does not reflect the current position.
15. Ratio analysis provides a deeper analysis of the profitability, liquidity, solvency and efficiency levels in the business. True/False? Give reason.
16. Ratio analysis provides information for making cross-sectional analysis. True/False? Give reason.
17. When comparative financial statement of an enterprise for two or more accounting periods is prepared, it is known as: \_\_\_\_\_ (Fill in the blank)
18. Financial analysis ignores qualitative factors. True/False? Give reason
19. In case of common size statement, figures of previous years are taken as base for comparison. True/False? Give reason.
20. Inter-firm comparison is also known as: (Choose the correct alternative)
- |                                |                    |
|--------------------------------|--------------------|
| (a) Cross-sectional Analysis   | (b) Trend analysis |
| (c) Dividend decision Analysis | (d) Debt Analysis  |

## Objective Type Questions 8.4

1. The \_\_\_\_\_ of a business firm is measured by its ability to satisfy its short term obligations as they become due: (Choose the correct alternative)
- |              |                   |
|--------------|-------------------|
| (a) Activity | (b) Liquidity     |
| (c) Debt     | (d) Profitability |
2. \_\_\_\_\_ ratios are a measure of the speed with which various assets are converted into revenue from operations or cash: (Choose the correct alternative)
- |                       |                   |
|-----------------------|-------------------|
| (a) Activity/Turnover | (b) Liquidity     |
| (c) Solvency          | (d) Profitability |
3. The two basic measures of liquidity are: (Choose the correct alternative)
- |   |   |
|---|---|
| (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 |

## Analysis of Financial Statements

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4. The \_\_\_\_\_ is a measure of liquidity which excludes \_\_\_\_\_, generally the least liquid asset:  
(Choose the correct alternative)
- (a) current ratio, trade receivable (b) liquid ratio, trade receivable  
(c) current ratio, inventory (d) liquid ratio, inventory
5. The \_\_\_\_\_ ratios provide the information critical to the long run operations of the firm. (Choose the correct alternative)
- (a) liquidity (b) activity  
(c) solvency (d) profitability
6. Match the following:
- (i) Measuring the efficiency of operations of business based on effective utilisation of resources (a) Liquidity Ratios  
(b) Solvency Ratios  
(ii) Measuring the ability of the business to pay the amount due to stakeholders as and when it is due. (c) Turnover Ratios  
(d) Profitability Ratios
7. Match the following:
- (i) Measuring the ability of the business to meet its contractual obligations towards external stakeholders. (a) Liquidity Ratios  
(b) Solvency Ratios  
(c) Turnover Ratios  
(d) Profitability Ratios  
(ii) Measuring profits in relation to revenue from operations or funds (or assets) employed in the business.
8. Turnover ratios are also called efficiency ratios. True/False? Give reason.
9. \_\_\_\_\_ ratios are calculated to measure the short-term solvency of the business, i.e. the firm's ability to meet its current obligations. (Fill in the blank)
10. Current ratio should be very high. True/False? Give reason.
11. Current ratio should not be very low. True/False? Give reason.
12. Match the following:
- (i) Normally, it is safe to have current ratio within the range of: (a) 1 : 1  
(b) 2 : 1  
(ii) Normally, it is advocated to be safe to have a Quick ratio of: (c) 3 : 1  
(d) 4 : 1
13. Quick Ratio is considered better than current ratio as a measure of liquidity position of the business. True/False? Give reason.
14. Quick Ratio is also known as 'Acid -Test Ratio'. True/False? Give reason.
15. \_\_\_\_\_ provides a measure of the capacity of the business to meet its short-term obligations without any flaw. (Choose the correct alternative)
- (a) Current ratio (b) Quick Ratio  
(c) Debt-equity ratio (d) Working Capital Turnover ratio
16. It is advocated to be safe to have a liquid ratio of 1 : 1. True/False? Give reason.
17. From the following information, liquidity ratio will be: (Choose the correct alternative)
- Bank overdraft ₹10,000 ; Trade payables ₹40,000 ; Current assets ₹80,000 ; Inventories ₹20,000 ; Prepaid expenses ₹5,000 ;  
Advance tax ₹5,000
- (a) 2 : 1 (b) 1.25 : 1  
(c) 1.1 : 1 (d) 1 : 1
18. From the following informations, current ratio will be: (Choose the correct alternative)
- Total assets ₹3,00,000 ; Non-current assets ₹2,60,000 ; Non-current liabilities ₹80,000 ; Shareholders' funds ₹2,00,000
- (a) 0.5 : 1 (b) 2 : 1  
(c) 1.5 : 1 (d) 1 : 1
19. Payment made to trade payables will always reduce the current ratio. True/False? Give reason.
20. Payment of dividend will improve the current ratio. True/False? Give reason.

21. If Current Ratio of a company is 2 : 1. Redemption of debentures for cash will reduce the current ratio of the company. True/False? Give reason.
22. Earning capacity of a business is assessed through \_\_\_\_\_ ratios. (Fill in the blank)
23. Solvency of business is assessed through \_\_\_\_\_ . (Fill in the blank)
24. Short term financial position of a business is assessed through \_\_\_\_\_ ratios. (Fill in the blank)
25. Current ratio 1.5 : 1, Working capital ₹30,000. What will be the current liabilities? (Choose the correct alternative)
- (a) ₹20,000 (b) ₹60,000  
(c) ₹1,65,000 (d) ₹1,50,000
26. Current ratio 4 : 1, Current assets ₹60,000 and quick assets are 2 : 5 : 1. Calculate inventory. (Choose the correct alternative)
- (a) ₹22,500 (b) ₹37,500  
(c) ₹15,000 (d) ₹25,000
27. Match the following:
- |                     |  |
|---------------------|--|
| (i) Liquidity ratio | (a) Current ratio and acid test ratio                        |
| (ii) Solvency ratio | (b) Working capital ratio and working capital turnover ratio |
|                     | (c) Debt equity ratio and proprietary ratio                  |
|                     | (d) Gross profit ratio and operating ratio                   |
28. Loose tools and Stores & Spares are not included in inventories for the purpose of calculation of Current ratio and Inventory turnover ratio because of:
- (a) Low value of items  
(b) Non-convertibility into cash  
(c) They are treated as a part fixed assets  
(d) None of the above