

Objective Type Questions 8.5

1. _____ ratios are calculated to determine the ability of the business to service its debt in the long run. (Fill in the blank)
 2. _____ measures the relationship between long-term debt and shareholders' funds. (Fill in the blank)
 3. From security point of view, which of the following type of capital structure is considered favourable?
(Choose the correct alternative)
 - (a) More debt and less equity.
 - (b) Less debt and more equity
 - (c) Equal debt and equity
 - (d) Debt equity ratio of 2 : 1
 4. It is considered to be safe if debt equity ratio is 2 : 1. True/False? Give reason.
 5. _____ ratio measures the degree of indebtedness of an enterprise and gives an idea to the long-term lender regarding extent of security of the debt. (Fill in the blank)
 6. A low debt equity ratio is always preferred. True/False? Give reason.
 7. A high debt-equity ratio is risky. True/False? Give reason.
 8. _____ expresses relationship of shareholders' funds to total assets. (Choose the correct alternative)
 - (a) Debt equity ratio
 - (b) Proprietary ratio
 - (c) Total assets to debt ratio
 - (d) Interest coverage ratio
 9. If Debt Equity Ratio is 2 : 1 and Total Assets to Debt Ratio is 2.5 : 1, what will be the Proprietary Ratio?
 10. A higher Total Assets to Debt ratio indicates that assets have been mainly financed by long-term loans. True/False? Give reason.
 11. _____ ratio primarily indicates the rate of external funds in financing the assets. (Fill in the blank)
 12. Redemption of debentures will reduce the debt equity ratio. True/False? Give reason.
 13. Further issue of equity shares will increase the debt equity ratio. True/False? Give reason.
 14. _____ ratio reveals the number of times interest on long-term debts is covered by the profits available for interest. (Fill in the blank)
 15. A higher Interest Coverage Ratio (ICR) ensures safety of interest on debts. True/False? Give reason.
16. From the following details, interest coverage ratio will be:
Net-profit after tax ₹3,60,000; 10% debentures ₹10,00,000 and tax rate 40%. (Choose the correct alternative)
 - (a) 5.04 times
 - (b) 6.04 times
 - (c) 7 times
 - (d) 3.6 times
 17. Calculate proprietary ratio: If share capital ₹5,00,000, reserve & surplus ₹2,00,000 and general reserve ₹1,00,000 and total assets ₹21,00,000. (Choose the correct alternative)
 - (a) 0.33 : 1
 - (b) 0.38 : 1
 - (c) 0.48 : 1
 - (d) 0.50 : 1
 18. Match the following:
Debt Equity Ratio if 0.5 : 1, what will be the impact of following transactions on Debt Equity Ratio?
 - (i) Purchase of machinery for cash
 - (ii) Issue of equity shares for cash
 - (a) Increase
 - (b) Decrease
 - (c) No change
 19. Match the following:
 - (i) Debt Equity ratio is 5 : 1
 - (ii) Current ratio is 3 : 1
 - (a) Risky
 - (b) Ideal
 - (c) Safe
 - (d) None of the above
 20. Match the following
Total assets to debt ratio is 3 : 1, what will be the impact of the following transactions?
 - (i) Loan taken from bank ₹3 lakhs payable after 4 years
 - (ii) Building purchased for cash
 - (a) Increase
 - (b) Decrease
 - (c) No change

Objective Type Questions 8.6

1. A higher turnover ratio is a good sign for the business. True/False? Give reasons.
2. The _____ is useful in evaluating credit and collection policies. (Choose the correct alternative)
 - (a) Average Payment Period
 - (b) Current Ratio
 - (c) Average Collection Period
 - (d) Trade Payables Turnover Ratio
3. The _____ measures the activity of a firm's inventory. (Choose the correct alternative)
 - (a) average collection period
 - (b) inventory turnover ratio
 - (c) liquid ratio
 - (d) current ratio
4. The _____ may indicate that the firm is experiencing stock outs and lost sales. (Choose the correct alternative)
 - (a) average payment period
 - (b) inventory turnover ratio
 - (c) average collection period
 - (d) quick ratio
5. ABC Co. extends credit period of 60 days to its customers. Its credit collection would be considered poor if its trade receivables turnover ratio is 5 times. True/False? Give reason. True/False? Give reason.
6. _____ ratio determines the number of times inventory of finished goods is converted into revenue from operations during the accounting period under consideration. (Fill in the blank)
7. Low inventory turnover ratio is a danger signal. True/False? Give reason.
8. Inventory turnover ratio throws light on utilisation of inventory of goods. True/False? Give reason.
9. High inventory turnover ratio is always a good sign for the business. True/False? Give reason.
10. From the following information, Inventory Turnover Ratio will be: (Choose the correct alternative)
 Revenue from operations ₹4,00,000 ; Average Inventory ₹60,000 ; Gross Profit Ratio 10%.
 - (a) 6.67 times
 - (b) 6 times
 - (c) 7.33 times
 - (d) 6.06 times
11. While calculating Trade Receivables Turnover Ratio, debtors should be taken after making provision for doubtful debts. True/False? Give reason.
12. Higher trade receivables turnover ratio means speedy collection from trade receivables. True/False? Give reason.
13. Lower Trade Payable Turnover Ratio is a good sign for the business. True/False? Give reason.
14. High working capital turnover ratio is a good sign for the business. True/False? Give reason.
15. Trade receivables turnover ratio 5 times, average trade receivables ₹60,000. Calculate net credit revenue from operations. (Choose the correct alternative)
 - (a) ₹3,00,000
 - (b) ₹2,00,000
 - (c) ₹12,000
 - (d) ₹2,40,000

Objective Type Questions 8.7

1. _____ (Activity/Profitability) ratios are calculated to analyse the earning capacity of the business which is the outcome of utilisation of resources employed in the business.
2. Gross Profit ratio indicates gross margin on products sold. *True/False? Give reason.*
3. While calculating operating ratio, cost of operations does not include: *(Choose the correct alternative)*
 - (a) Office expenses
 - (b) Depreciation
 - (c) Employee benefit expenses
 - (d) Interest paid
4. If operating ratio is 80%, operating profit ratio will be _____ . *(Fill in the blank)*
5. _____ is calculated to reveal operating margin. *(Choose the correct alternative)*
 - (a) Gross profit ratio
 - (b) Net Profit ratio
 - (c) Operating ratio
 - (d) Operating profit ratio
6. Lower operating ratio is a very healthy sign. *True/False? Give reason.*
7. Net profit ratio is based on all inclusive concept of profit. *True/False? Give reason.*
8. _____ is a measure of net profit margin in relation to revenue from operations. It reflects overall efficiency of the business. *(Fill in the blank)*
9. Return on investment explains the overall utilisation of funds by a business enterprise. *True/False? Give reason.*
10. _____ reveals the efficiency of the business in utilisation of funds entrusted to it by shareholders, debentureholders and long-term loans. *(Choose the correct alternative)*
 - (a) Working capital turnover ratio
 - (b) Net profit ratio
 - (c) Return on Investment
 - (d) operating ratio
1. Revenue from operations = ₹2,50,000
Gross Profit Ratio = 40%
Operating expenses = ₹60,000
The Operating Profit Ratio will be: *(Choose the correct alternative)*
 - (a) 84%
 - (b) 16%
 - (c) 96%
 - (d) 40%
2. A company's revenue from operations are ₹20,00,000, cost of revenue from operations is ₹14,00,000 and indirect expenses are ₹2,00,000. What is the Net Profit Ratio? *(Choose the correct alternative)*
 - (a) 70%
 - (b) 30%
 - (c) 20%
 - (d) 10%
3. Match the following:

(i) Capital employed	(a) Total assets – current liabilities
(ii) Shareholders' funds	(b) Total assets – total debts
	(c) Fixed assets – current liabilities
4. If revenue from operations is ₹6,00,000 and Gross profit is 20% of cost of revenue from operations. What will be the gross profit ratio?
 - (a) 20%
 - (b) 16.67%
 - (c) 25%
 - (d) 15%