## Current Ratio / Working Capital Ratio:

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Current Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, bank balance</td>
<td>Bank overdraft</td>
</tr>
<tr>
<td>Trade receivable/ debtors (reduce provision)</td>
<td>Trade payable/ creditors</td>
</tr>
<tr>
<td>Bills receivable (reduce provision)</td>
<td>Bills payable</td>
</tr>
<tr>
<td>Stock/ Inventory</td>
<td>Short term loans and advances (credit balance/liability)</td>
</tr>
<tr>
<td>Marketable securities (reduce non realizable value)</td>
<td>Provision for taxation</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>Outstanding expenses</td>
</tr>
<tr>
<td>Advance payments</td>
<td>Income received in advance</td>
</tr>
<tr>
<td>Income earned but not received/ accrued income</td>
<td>Unclaimed dividend</td>
</tr>
</tbody>
</table>
LIQUIDITY RATIOS

QUICK/ACID TEST/ LIQUID RATIO:

Quick Ratio = Quick assets / Current Liabilities

Quick assets = Current assets – Inventories – Prepaid Expenses and Advance Taxes

OR

Quick assets = Current investments + Trade Receivables (Excluding provision for doubtful debts ) + cash and cash equivalents + short term loans and advances

*Inventory is excluded as it has to be sold before being converted into cash.

**Prepaid expenses are excluded as they are not expected to be converted into cash.
LIQUIDITY RATIOS

SUPER QUICK RATIO / CASH RATIO / ABSOLUTE LIQUIDITY:

Super Quick Ratio = Super Quick Assets / Current Liabilities
Q. Net working capital is defined as:

[a] Total assets – Current assets
[b] The excess of current assets over current liabilities
[c] Current liabilities – Current assets
[d] Marketable securities and cash
[b] The excess of current assets over current liabilities
Q. Cash ratio is also known as:
   [a] Acid Test ratio
   [b] Coverage ratio
   [c] Absolute liquidity ratio
   [d] None of the above
PRACTICE QUESTIONS ON LIQUIDITY RATIOS

[c] Absolute liquidity ratio
Q. Which of the following are limitations of Ratio Analysis?
1. It ignores quantitative analysis
2. It ignores qualitative analysis
3. It is a historical analysis

OPTIONS:
[a] 1 and 2
[b] 2 and 3
[c] 1 and 3
[d] 1, 2 and 3
2. It ignores qualitative analysis
3. It is a historical analysis
Q. The current ratio of a company is 2.5:1. Which of the following transactions would not change it?
[a] Payment to trade creditors
[b] Sell machinery for cash
[c] Purchase goods on credit
[d] Issue of equity shares
[d] Issue of equity shares
Q. The current ratio of a company is 3:1. Which of the following transactions would not change the ratio?
[a] Repayment of a current liability
[b] Purchasing goods for cash
[c] Payment of dividend
[d] Sale of goods Rs.11,000 (cost Rs.10,000)
PRACTICE QUESTIONS ON LIQUIDITY RATIOS

[b] Purchasing goods for cash
Q. Which of the following measure of a company’s performance and condition is provided by ratios?

[a] Definitive
[b] Gross
[c] Relative
[d] Qualitative
PRACTICE QUESTIONS ON LIQUIDITY RATIOS

[c] Relative
Q. The current ratio of a Company is 3:1. Which of the following transactions would reduce the Current ratio?

[a] Sale of goods costing Rs.20,000 for Rs.18000 on credit
[b] Payment of Trade Payables
[c] Sale of goods costing Rs.20,000 for Rs.20,000 for cash
[d] Purchase of machinery against long-term loan
[a] Sale of goods costing Rs.20,000 for Rs.18000 on credit
Q. The Quick Ratio of a Company is 1.5:1. Which of the following transactions would not affect the Quick ratio?

[a] Purchase of goods for cash
[b] Purchase of goods on credit
[c] Cash received from trade receivables
[d] Paid rent in advance
[c] Cash received from trade receivables
Q. If the current ratio of a company is 2.5:1. Which of the following transactions would not improve the current ratio?

[a] Payment to trade payables
[b] Sell machinery against cheque
[c] Sale of inventory at loss on credit
[d] Issue of shares
[c] Sale of inventory at loss on credit
Q. If the current ratio of a company is 1.5:1. Which of the following transactions would not alter the current ratio?

[a] Issue of shares for cash
[b] Sale of goods at loss
[c] Payment of current liabilities
[d] Realization of current assets
[d] Realization of current assets
Q. Current Ratio of a company is 2:1. Which of the following would improve the ratio?

[a] Purchase of goods on credit  
[b] Purchase of goods against cheque  
[c] Sale of goods costing Rs.50,000 for Rs.60,000 on credit  
[d] Borrow money on promissory note
[c] Sale of goods costing Rs.50,000 for Rs.60,000 on credit
Q. Capital employed Rs.10,00,000; Fixed Assets Rs.7,00,000; Current Liabilities Rs.100,000. There are no long term investments. Calculate Current Ratio.

[a] 3:1
[b] 4:1
[c] 2:1
[d] 1:1
PRACTICE QUESTIONS ON LIQUIDITY RATIOS

[b] 4:1
Current assets - Current Liabilities + Fixed Assets = Capital employed
Q. If a firm has Rs.100 in inventories, a current ratio equal to 1.2 and a quick ratio equal to 1.1. What is the firm’s Net working Capital?

[a] 100
[b] 200
[c] 1000
[d] 1200
PRACTICE QUESTIONS ON LIQUIDITY RATIOS

[b] 200
Q. A firm has current assets and current liabilities of 1500 and 600 respectively. How much can it borrow from bank without reducing the current ratio below 1.5?

[a] 1000
[b] 800
[c] 1500
[d] 1200
PRACTICE QUESTIONS ON LIQUIDITY RATIOS

[d]1200