AJA Commerce Academy
CA - Intermediate
Test Series – FINANCIAL MANAGEMENT

Time Allowed – 1.5 Hours | Maximum Marks – 50

Section A – Multiple Choice Questions (10 Marks)

Case Scenario: Financial Performance Analysis at XYZ Ltd. (6 Marks)

Scenario:
XYZ Ltd. is a retail company analyzing its financial performance for the year. The company's sales have grown by 15%, but operating expenses have increased by 10%. The CFO is reviewing key ratios, including profitability and liquidity ratios, to identify areas of improvement.

Questions:

1. Which ratio best measures the company's ability to meet short-term obligations?
   (a) Current Ratio
   (b) Debt-Equity Ratio
   (c) Gross Profit Ratio
   (d) Capital Turnover Ratio
2. If the company wants to evaluate its operating efficiency, which ratio should it focus on?
   (a) Inventory Turnover Ratio
   (b) Quick Ratio
   (c) Debt-Service Coverage Ratio
   (d) Net Profit Ratio
3. An increase in the company's Debt-Equity Ratio indicates:
   (a) Improved liquidity position
   (b) Increased reliance on external funds
   (c) Decreased profitability
   (d) Higher working capital turnover
4. Which of the following is a **profitability ratio based on sales**?
   (a) Return on Capital Employed
   (b) Gross Profit Ratio
   (c) Debt to Total Assets Ratio
   (d) Interest Coverage Ratio
5. If XYZ Ltd.'s Quick Ratio is below 1, this indicates:
   (a) Low liquidity and insufficient liquid assets
   (b) Excessive working capital
   (c) Inefficient use of fixed assets
   (d) High leverage and risk
6. To calculate the company's Net Profit Ratio, which formula is used?
   (a) EBIT ÷ Total Assets × 100

(b) Net Profit ÷ Sales × 100
(c) Gross Profit ÷ Net Worth × 100
(d) Operating Profit ÷ Total Sales × 100

General MCQs (4 Marks)

7. Which of the following ratios is not a liquidity ratio?
   (a) Current Ratio
   (b) Quick Ratio
   (c) Interest Coverage Ratio
   (d) Cash Ratio
8. A company's Return on Equity can increase if:
   (a) Asset turnover decreases
   (b) Debt-to-Equity ratio decreases
   (c) Net Profit Margin increases
   (d) Equity multiplier decreases
9. The formula for calculating the **Debt-Service Coverage Ratio (DSCR)** is:
   (a) Net Profit ÷ Total Assets
   (b) EBIT ÷ Interest Expense
   (c) Earnings Available for Debt Service ÷ Interest + Installments
   (d) Current Assets ÷ Current Liabilities
10. Which of the following ratios indicates the efficiency of inventory management?
   (a) Working Capital Turnover Ratio
   (b) Inventory Turnover Ratio
   (c) Fixed Assets Turnover Ratio
   (d) Receivables Turnover Ratio

Section B – Practical and Descriptive Questions (40 Marks)

Question 1: Ratio Analysis for Financial Decision-Making (10 Marks)

Scenario:
ABC Ltd. has provided the following data for the year ending 31st March 2024:

- Current Assets: ₹12,00,000
- Current Liabilities: ₹6,00,000
- Inventory: ₹3,00,000
- Total Debt: ₹9,00,000
- Shareholder's Equity: ₹6,00,000
- EBIT: ₹4,00,000
- Interest Expense: ₹1,00,000

(a) Calculate the following ratios:

1. Current Ratio (2 Marks)
2. Quick Ratio (2 Marks)
3. Debt-Equity Ratio (2 Marks)
4. Interest Coverage Ratio (2 Marks)

(b) Interpret the results. (2 Marks)

Question 2: Application of Profitability Ratios (10 Marks)

Scenario:
XYZ Ltd. reported the following details:

- Net Profit After Tax: ₹3,00,000
- Total Sales: ₹15,00,000
- Gross Profit: ₹6,00,000
- EBIT: ₹4,50,000
- Total Assets: ₹10,00,000

(a) Calculate the following ratios:

1. Gross Profit Ratio (2 Marks)
2. Net Profit Ratio (2 Marks)
3. Operating Profit Ratio (2 Marks)
4. Return on Assets (ROA) (2 Marks)

(b) Discuss the significance of profitability ratios for decision-making. (2 Marks)

Question 3: Efficiency Ratios and Their Application (10 Marks)

Scenario:
ABC Ltd. reported the following data:

- Credit Sales: ₹20,00,000
- Closing Receivables: ₹5,00,000
- Cost of Goods Sold: ₹12,00,000
- Opening Stock: ₹1,00,000
- Closing Stock: ₹1,50,000

(a) Calculate the following ratios:

1. Inventory Turnover Ratio (3 Marks)
2. Receivables Turnover Ratio (3 Marks)

(b) Explain how these ratios help assess operational efficiency. (4 Marks)

Question 4: Limitations of Ratio Analysis (10 Marks)

(a) Discuss any four limitations of ratio analysis. (6 Marks)
(b) How can a financial manager mitigate these limitations? (4 Marks)