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Self-Made Assignment - Advance Accounting

Liquidity and Solvency Ratio

## Fill In the Blank Questions:

- The **current ratio** is calculated by dividing current assets by current liabilities. A higher current ratio indicates better liquidity. The formula for the current ratio is:  $\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$ .
  - Fixed Assets
  - Current Assets
- The **quick ratio**, also known as the acid-test ratio, excludes inventory from current assets. The formula for the quick ratio is:  $\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$ .
  - Inventory
  - Accounts Receivable
- The **debt to equity ratio** measures the proportion of a company's financing that comes from debt versus equity. The formula for the debt to equity ratio is:  $\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholder's Equity}}$ .
  - Liabilities
  - Revenue
- The **interest coverage ratio** measures a company's ability to pay interest on its debt. It is calculated by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses.
  - Depreciation
  - Interest
- The **cash ratio** measures a company's ability to pay off short-term obligations with its cash and cash equivalents. The formula for the cash ratio is:  $\text{Cash Ratio} = \frac{\text{Cash} + \text{Cash Equivalents}}{\text{Current Liabilities}}$ .
  - Current

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b) Long-Term

6. The **debt to asset ratio** measures the percentage of a company's total assets that are financed by debt. The formula for the debt to asset ratio is:  $\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$

- a) Equity  
b) Assets

7. A **high liquidity ratio** indicates a company's ability to cover its short-term obligations easily, while a low liquidity ratio suggests a risk of \_\_\_\_\_ problems.

- a) Cash Flow  
b) Profitability

8. The **debt to equity ratio** helps measure a company's financial leverage and is calculated by dividing total liabilities by \_\_\_\_\_.

- a) Total Revenue  
b) Shareholder's Equity

9. The **current ratio** provides insight into a company's ability to pay off its short-term liabilities with its short-term assets. A higher current ratio means \_\_\_\_\_ liquidity.

- a) Lower  
b) Higher

10. A **low cash ratio** indicates that a company may face difficulties in meeting \_\_\_\_\_ obligations.

- a) Short-term  
b) Long-term

11. The **debt to asset ratio** measures what percentage of a company's assets are financed by debt. A ratio higher than 50% means the company has more \_\_\_\_\_ than assets.

- a) Liabilities



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b) Equity

12. The **working capital ratio** is another name for the \_\_\_\_\_ ratio, used to measure a company's short-term liquidity.

- a) Quick
- b) Current

13. A **solvency ratio** of less than 20% might indicate a company is at a higher risk of \_\_\_\_\_.

- a) Bankruptcy
- b) Growth

14. The **cash ratio** is considered the most conservative liquidity ratio because it only includes cash and cash equivalents, excluding \_\_\_\_\_ from the calculation.

- a) Accounts Receivable
- b) Inventory

15. The **equity ratio** is used to measure a company's financial strength and is calculated as total equity divided by \_\_\_\_\_.

- a) Total Liabilities
- b) Total Assets

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