20 True or False

Decide, then check the answer and reason below each statement.

Question 1

The balance sheet shows a firm's assets and liabilities at a specific point in time.

TRUE

The balance sheet is a stock concept reflecting the position on a given date.

Question 2

The profit and loss account shows a firm's assets and liabilities at a specific point in time.

FALSE

That description fits the balance sheet; the P&L is a flow statement covering earnings over a period.

Question 3

The quick ratio subtracts inventory from current assets before dividing by current liabilities.

TRUE

The quick ratio tests liquidity without relying on the sale of inventory.

Question 4

A quick ratio ignores current liabilities entirely and only measures inventory levels.

FALSE

The quick ratio is current assets minus inventory divided by current liabilities, so liabilities are central to it.

Question 5

DuPont analysis breaks return on equity into net profit margin, asset turnover and equity multiplier.

TRUE

This decomposition shows whether high ROE stems from profitability, efficiency or leverage.

Question 6

The debt-equity ratio is calculated as EBIT divided by interest expense.

FALSE

EBIT divided by interest is the interest coverage ratio; debt-equity is total debt divided by net worth.

Question 7

Interest coverage ratio is calculated as EBIT divided by interest expense.

TRUE

It measures how many times over a firm's earnings can cover its interest obligation.

Question 8

A higher debt-equity ratio always indicates lower financial risk for a borrower.

FALSE

A higher debt-equity ratio signals heavier gearing and generally greater, not lower, long-term risk.

Question 9

Vertical analysis expresses each financial statement line as a percentage of a base figure.

TRUE

Vertical or common-size analysis uses a base such as total assets or net sales for comparison.

Question 10

Horizontal analysis expresses each balance sheet item as a percentage of total assets.

FALSE

That describes vertical analysis; horizontal analysis compares line items across time periods instead.

Question 11

The cash flow statement covers operating, investing and financing activities.

TRUE

These three categories together reconcile accrual profit with actual cash movement.

Question 12

Reported accounting profit is always identical to the cash a business has generated.

FALSE

Accrual-based profit can diverge sharply from actual cash flow due to unpaid receivables and other timing differences.

Question 13

A current ratio significantly below the traditional 1.33:1 benchmark can signal liquidity stress.

TRUE

Banks use this benchmark, rooted in older committee norms, to flag weak short-term solvency.

Question 14

DSCR is calculated only as PAT divided by interest on term loan, ignoring depreciation and instalments.

FALSE

DSCR properly includes depreciation and term-loan interest in the numerator and the instalment in the denominator.

Question 15

Debtors turnover ratio measures the speed at which a firm collects its credit sales.

TRUE

A higher debtors turnover indicates faster collection of outstanding receivables.

Question 16

Return on equity is calculated by dividing net sales by net worth.

FALSE

Return on equity is net profit divided by net worth, not net sales.

Question 17

Window dressing can involve repaying creditors just before the balance sheet date to inflate the current ratio.

TRUE

Such temporary repayments can make short-term liquidity look stronger than it normally is.

Question 18

Trend analysis compares two companies of different sizes without needing any base year.

FALSE

Trend analysis indexes a firm's own base year to 100; comparing differently sized firms is the role of vertical analysis.

Question 19

Net profit margin is calculated as net profit divided by net sales.

TRUE

This ratio measures how much of every rupee of sales converts into bottom-line profit.

Question 20

Disclosure norms under the Companies Act and Ind AS have no bearing on comparability of financial statements across firms.

FALSE

These frameworks govern how figures are reported, so differing accounting policies do affect comparability.