

■ Practicals on Ratios and Depreciation

Part A – Objective Type Questions

A.1 Multiple Choice Questions

1. Depreciation is charged to — (a) Reduce cash balance (b) Allocate the cost of an asset over its useful life (c) Increase asset value (d) None of these
2. Which of the following costs is not included in the cost of a non-current asset? (a) Installation cost (b) Delivery charge (c) Insurance cost (d) Purchase price
3. The formula for Straight Line Method (SLM) of depreciation is: (a) $\text{Cost} \times \text{Rate}$ (b) $\text{Cost} - \text{Residual Value} \div \text{Useful Life}$ (c) $\text{Cost} + \text{Residual Value} \div \text{Useful Life}$ (d) None
4. The account used to record total depreciation of an asset over its life is called: (a) Depreciation Account (b) Accumulated Depreciation Account (c) Expense Account (d) Liability Account
5. Asset Turnover ratio measures: (a) Profitability (b) Efficiency in using assets to generate sales (c) Solvency (d) Liquidity

A.2 True or False

1. Depreciation is charged only when the asset is sold.
2. Installation cost should be treated as an expense, not as part of the asset.
3. $\text{Rate of Return on Assets} = \text{Net Profit} \div \text{Average Total Assets} \times 100$.
4. Fair value can be verified using an invoice.
5. Higher asset turnover indicates better utilization of assets.

A.3 Fill in the blanks

1. Depreciation is a process of _____ the cost of a non-current asset over its useful life.
2. The cost of a computer system includes the invoice price and _____ costs.
3. The difference between the cost and accumulated depreciation is known as _____ value.
4. _____ is used to record details of each non-current asset.
5. The two financial indicators related to non-current assets are _____ and _____.

Part B – Practical Questions

B.1 Depreciation (Straight Line Method)

1. A machine costs \$50,000 and has an estimated residual value of \$5,000. Its useful life is 5 years. Calculate: Annual depreciation and book value at the end of each year.
2. Furniture purchased for \$12,000 on 1st Jan 2023. Installation cost \$2,000, and expected residual value \$2,000 after 4 years. Find: (a) Cost of asset (b) Annual depreciation (c) Value after 2 years.
3. Equipment cost \$80,000 with a life of 8 years and no residual value. Depreciation charged using the straight-line method. Find: Annual depreciation and accumulated depreciation after 5 years.

B.2 Ratio Analysis (Based on Non-Current Assets)

- 1 1. A firm has: Net Sales = \$500,000; Average Total Assets = \$200,000. Find: Asset Turnover Ratio.
- 2 2. A company has: Net Profit = \$50,000; Average Total Assets = \$250,000. Find: Rate of Return on Assets.
- 3 3. Firm A and Firm B have the following data:

Particulars	Firm A	Firm B
Net Sales	\$800,000	\$600,000
Net Profit	\$120,000	\$90,000
Average Assets	\$400,000	\$300,000

 Calculate: (a) Asset Turnover for both firms (b) Rate of Return on Assets for both (c) Comment on which firm is more efficient.