

FA Module 4 Current ratio & quick ratio practice exam questions

(The attached PDF file has better formatting.)

On December 30, a firm's balance sheet shows

- non-current liabilities = 246
- shareholders' equity = 364
- total assets = 732

On December 30, the firm's current ratio = 2.69 and its quick ratio = 2.26

On December 31, the firm sells goods on credit (30 days net) for 160 at a gross profit margin of 44%, and it buys inventory for 80 on credit (60 days net).

Question 4.2: Current liabilities

What are current liabilities on December 30?

Answer 4.2: $732 - 246 - 364 = 122$

(current liabilities = total assets – non-current liabilities – shareholders' equity)

Question 4.3: Current assets

What are current assets on December 30?

Answer 4.3: $122 \times 2.69 = 328.18$

(current assets = current liabilities \times current ratio)

Question 4.4: Quick assets

What are quick assets on December 30?

Answer 4.4: $122 \times 2.26 = 275.72$

(quick assets = current liabilities \times quick ratio)

Question 4.5: Inventory

What is inventory on December 30?

Answer 4.5: $328.18 - 275.72 = 52.46$

(inventory = current assets – quick assets)

Question 4.6: Current liabilities

What are current liabilities on December 31?

Answer 4.6: $122 + 80 = 202$

(add change in accounts payable from purchase of inventory)

Question 4.7: Inventory

What is the change in inventory on December 31?

Answer 4.7: $80 - 160 \times (1 - 44\%) = (9.60)$

(Add inventory bought and subtract inventory sold, which is goods sold \times (1 – gross profit margin))

Question 4.8: Current assets

What are current assets on December 31?

Answer 4.8: $328.18 + 160 - 9.60 = 478.58$

(Add change in accounts receivable and change in inventory)

Question 4.9: Inventory

What is inventory on December 31?

Answer 4.9: $52.46 - 9.60 = 42.86$

(Add change in inventory)

Question 4.10: Quick assets

What are quick assets on December 31?

Answer 4.10: $478.58 - 42.86 = 435.72$

(quick assets = current assets – inventory)

Question 4.11: Current ratio

What is the current ratio on December 31?

Answer 4.11: $478.58 / 202 = 2.369$

(current ratio = current assets / current liabilities)

Question 4.12: Quick ratio

What is the quick ratio on December 31?

Answer 4.12: $435.72 / 202 = 2.157$

(quick ratio = quick assets / current liabilities)