Business Ratios Job Interview Questions And Answers

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Business Ratios Interview Questions And Answers Guide.

Question - 1:
What is Accounts payable?

Ans:
These are the amounts that are due to vendors who have supplied goods or services. The accounts payable are supported by the vendor invoices that have been approved and processed, but have not yet been paid.

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Question - 2:
What are Deferred revenues?

Ans:
This reports the amounts that a customer has prepaid and will be earned by the company within one year of the balance sheet date. An example is a retailer's unredeemed gift cards.

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Question - 3:
What is Accrued compensation?

Ans:
Included in this are payroll related items such as the amounts due to employees and the amounts to be remitted for payroll taxes.

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Question - 4:
What are the other accrued expenses or liabilities?

Ans:
This reports the amounts that the company owes for items not recorded in accounts payable or accrued compensation. Examples include the interest expense that the company has incurred (but has not yet paid) and repairs that took place but the vendor's invoice has not been fully processed.

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Question - 5:
Described about the tax advantage when bonds are issued instead of stock?

Ans:
The tax advantage of issuing bonds (or other debt) instead of stock results from the interest paid by the company being a deductible expense on its federal and state income tax returns. Dividends paid to stockholders are not a deductible expense, since dividends are a distribution of profits to the owners of the corporation.

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Question - 6:
Tell us are the liabilities always a bad thing?

Ans:
Liabilities are obligations and are usually defined as a claim on assets. However, liabilities and stockholders' equity are also the sources of assets. Generally, liabilities are considered to have a lower cost than stockholders' equity. On the other hand, too many liabilities result in additional risk.
Some liabilities have low interest rates and some have no interest associated with them. For example, some of a company's accounts payable may allow payment in 30 days. With those payables it is better to have the liability and to keep your cash in the bank until they become due.
In our personal lives, our first house was probably purchased with a down payment and mortgage loan. That mortgage loan was a big liability, but it allowed us to upgrade our living space. I viewed my mortgage loan liability as a good thing because it allowed me to own a nice home in a beautiful neighborhood.
So some liabilities are good-especially the ones that have a very low interest rate. Too many liabilities could cause financial hardships.

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Question - 7:
Define debt to total assets ratio?

Ans:
The debt to total assets ratio is an indicator of financial leverage. It tells you the percentage of total assets that were financed by creditors, liabilities, debt.
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Question - 8:
What is NOI?

Ans:
NOI is the acronym for net operating income. Net operating income is also referred to as income from operations.
NOI excludes discontinued operations, extraordinary items, and nonoperating (or other) items such as interest expense, interest revenues, gains, and losses.
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Question - 9:
Described turnover?

Ans:
Turnover is used in some countries to mean sales.
Turnover is also used in certain financial ratios. For example, the inventory turnover ratio is calculated by dividing the cost of goods sold during a year by the average inventory during the same year. The accounts receivable turnover ratio is computed by dividing the credit sales during a year by the average balance in Accounts Receivable during the same year.
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Question - 10:
Described financial leverage?

Ans:
Financial leverage refers to the use of debt to acquire additional assets. Financial leverage is also known as trading on equity. Below are two examples to illustrate the use of financial leverage, or simply leverage.
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Question - 11:
Which adjustments are require for Voided checks?

Ans:
Voided checks may require some adjustments when reconciling the bank statement. For example, if a check is written in December but is voided in January, the Cash account in the company's general ledger will need to be increased when the check is voided. (Another account will need to be credited because of double entry bookkeeping.)
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Question - 12:
Define voided check?

Ans:
A voided check is a check written or partially written but then canceled or deleted by the maker of the check.
The notation of "void" is used because checks are prenumbered for control purposes and every check needs to be accounted for.
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Question - 13:
Define liquidity?

Ans:
Liquidity refers to a company's ability to pay its bills from cash or from assets that can be turned into cash very quickly.
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Question - 14:
Define the term solvency?

Ans:
I use the term solvency to mean:
1) that a company is able to pay its obligations when they come due
2) that a company is able to continue in business.
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Question - 15:
Define customer deposit?

Ans:
A customer deposit could be an amount paid by a customer to a company prior to the company providing it with goods or services. In other words, the company receives the money prior to earning it. The company receiving the money has an obligation to provide the goods or services to the customer or to return the money.

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Question - 16:
How you improved working capital?

Ans:
Working capital can be improved by
1) earning profits
2) issuing common stock or preferred stock for cash
3) replacing short-term debt with long-term debt
4) selling long-term assets for cash
5) settling short-term debts for less than the stated amounts
6) collecting more of the accounts receivables than was anticipated and then reducing the balance required in the current asset account Allowance for Doubtful Accounts.

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Question - 17:
Where you record refund of registration fee?

Ans:
If the registration fee refers to an amount you are refunding because someone had originally registered for one of your programs, I would:
1) credit Cash for the amount you are paying out as the refund,
2) debit a contra-revenue account such as Refunds of Registration Fee Revenues. This will allow you to easily track the total amounts of refunds that you make during a year. On the other hand, if it is rare for your organization to refund registration fees, you could simply:
1) debit the amount you are refunding to the normal revenue account such as Registration Fee Revenues
2) credit Cash.

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Question - 18:
How expense affect the balance sheet?

Ans:
An expense will decrease the amount of assets or increase the amount of liabilities, and will reduce the amount of owner's or stockholders' equity.
For example an expense might:
1) reduce a company's assets such as Cash, Prepaid Expenses, or Inventory,
2) increase the credit balance in a contra-asset account such as Allowance for Doubtful Accounts or Accumulated Depreciation,
3) increase the balance in the liability account Accounts Payable, or increase the amount of accrued expenses payable such as Wages Payable, Interest Payable, and so on.

View All Answers

Question - 19:
Can you please explain the difference between accounts payable and accrued expenses payable?

Ans:
The liability account Accounts Payable for suppliers' invoices that have been received and must be paid. As a result, the balance in Accounts Payable is likely to be a precise amount that agrees with supporting documents such as invoices, agreements, etc.
I would use the liability account Accrued Expenses Payable for the accrual type adjusting entries made at the end of the accounting period for items such as utilities, interest, wages, and so on. The balance in the Accrued Expenses Payable should be the total of the expenses that were incurred as of the date of the balance sheet, but were not entered into the accounts because an invoice has not been received or the payroll for the hourly wages has not yet been processed, etc. The amounts recorded in Accrued Expenses Payable will often be estimated amounts supported by logical calculations.

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Question - 20:
Define the separation of duties?

Ans:
The separation of duties is one of several steps to improve the internal control of an organization's assets. For example, the internal control of cash is improved if the money handling duties are separated from the record keeping duties. By separating these duties the likelihood of theft is reduced because it will now require two dishonest people working together to admit to each other that they are dishonest, plan the theft, and to then carry out the theft. One person will have to remove the cash and the other person will have to falsify the records.
Without the separation of duties, the theft of cash is easier. One dishonest person can steal the money and enter a fictitious amount into the records-thereby concealing the theft.
Another step in improving internal control over cash is to use a cash register, issue receipts, and have two people present when cash is handled.

View All Answers

Question - 21:
List the reasons of high inventory days?

Ans:
The days sales in inventory is high when the inventory turnover is low.
Since inventory turnover is associated with sales and average inventory, changes in either sales or inventory can cause a high amount of inventory days.
For example, if a company has maintained its inventory quantities, but economic factors cause a significant drop in its sales, the company's inventory days will increase dramatically.
If a retailer increases its inventory in order to generate additional sales, but sales do not increase, there will also be an increase in the number of inventory days.

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Question - 22:

Can you please explain the difference between liquidity and liquidation?

Ans:

Liquidity is often evaluated by comparing a company's current assets to its current liabilities. Working capital, the current ratio, and the quick ratio are referred to as liquidity ratios or short-term solvency ratios , since their calculations use some or all of the current assets and the current liabilities. Sometimes a company's accounts receivable turnover ratio, inventory turnover ratio, and free cash flow are also used to assess a company's liquidity.
Liquidation is a term commonly used when a company sells parts of its business for cash, or when it sells assets in order to pay debts. Liquidation may also involve the winding down or the closing of a business.

View All Answers

Question - 23:

What is Liquidation?

Ans:

Liquidation is a term commonly used when a company sells parts of its business for cash, or when it sells assets in order to pay debts. Liquidation may also involve the winding down or the closing of a business.

View All Answers

Question - 24:

What is Liquidity?

Ans:

Liquidity usually refers to a company's ability to pay its bills when they become due. Liquidity is often evaluated by comparing a company's current assets to its current liabilities.

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Question - 25:

How you described the change in net working capital?

Ans:

A change in the total amount of current assets without a change of the same amount in current liabilities will result in a change in the amount of working capital. Similarly, a change in the total amount of current liabilities without an identical change in the total amount of current assets will cause a change in working capital.

View All Answers

Question - 26:

Define Net working capital?

Ans:

Net working capital or working capital is defined as current assets minus current liabilities.

View All Answers

Question - 27:

How to calculate the payback period?

Ans:

The payback period is calculated by counting the number of years it will take to recover the cash invested in a project.
Let's assume that a company invests $400,000 in more efficient equipment. The cash savings from the new equipment is expected to be $100,000 per year for 10 years. The payback period is 4 years ($400,000 divided by $100,000 per year).
A second project requires an investment of $200,000 and it generates cash as follows: $20,000 in Year 1; $60,000 in Year 2; $80,000 in Year 3; $100,000 in Year 4; $70,000 in Year 5. The payback period is 3.4 years ($20,000 + $60,000 + $80,000 = $160,000 in the first three years + $40,000 of the $100,000 occurring in Year 4).

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Question - 28:

Define accounts receivable turnover ratio?

Ans:

Assuming that a company has an accounts receivable turnover ratio of 10 times per year, the average collection period is 36.5 days (365 divided by 10).

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Question - 29:

Define average collection period?

Ans:

The average collection period is the average number of days between:
1) the date that a credit sale is made
2) the date that the money is received from the customer.
The average collection period is also referred to as the days' sales in accounts receivable.

View All Answers

Question - 30:
What is current asset?

Ans:
A current asset is cash and any other company asset that will be turning to cash within one year from the date shown in the heading of the company's balance sheet. (If a company has an operating cycle that is longer than one year, an asset that will turn to cash within the length of its operating cycle is considered to be a current asset.)

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Question - 31:
What is creditors?

Ans:
The parties who are owed the current liabilities are referred to as creditors. If the creditors have a lien on company assets, they are known as secured creditors. The creditors without a lien are referred to as unsecured creditors.

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Question - 32:
List the different orders of Current liabilities?

Ans:
Current liabilities are usually presented in the following order:
* The principal portion of notes payable that will become due within one year
* Accounts payable
* The remaining current liabilities such as payroll taxes payable, income taxes payable, interest payable and other accrued expenses.

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Question - 33:
What is current liability?

Ans:
Current liability is an obligation that is 1) due within one year of the date of a company's balance sheet and 2) will require the use of a current asset or will create another current liability. If a company's operating cycle is longer than one year, current liabilities are those obligation's due within the operating cycle.

View All Answers

Question - 34:
What is base year?

Ans:
In accounting, base year may refer to the year in which a business had adopted the LIFO cost flow assumption for valuing its inventory and its cost of goods sold. Under the dollar-value LIFO technique a company's current inventory is restated to base-year prices in order to determine whether the quantity of inventory has increased or decreased.

View All Answers

Question - 35:
How to illustrate the interest coverage ratio?

Ans:
let's assume that a corporation's most recent annual income statement reported net income after tax of $650,000; interest expense of $150,000; and income tax expense of $100,000. Given these assumptions, the corporation's annual income before interest and income tax expenses is $900,000 (net income of $650,000 + interest expense of $150,000 + income tax expense of $100,000). Since the interest expense was $150,000 the corporation's interest coverage ratio is 6 ($900,000 divided by $150,000 of annual interest expense).
A large interest coverage ratio indicates that a corporation will be able to pay the interest on its debt even if its earnings were to decrease. A small interest coverage ratio sends a caution signal.

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Question - 36:
Define interest coverage ratio?

Ans:
The interest coverage ratio is a financial ratio used to measure a company's ability to pay the interest on its debt. (The required principal payments are not included in the calculation.) The interest coverage ratio is also known as the times interest earned ratio.

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Question - 37:
What is current portion of long-term debt?

Ans:
The principal payments of a mortgage loan or an equipment loan that must be paid within one year of the date of the balance sheet are reported in this item.

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Question - 38:

Described Working capital?

Ans:

Working capital is not a ratio, proportion or quotient, but rather it is an amount. Working capital is the amount remaining after current liabilities are subtracted from current assets.

View All Answers

Question - 39:

Why inventory turnover is important?

Ans:

Inventory turnover is important because a company often has a significant amount of money tied up in its inventory. If the items in inventory do not get sold, the company's money will not become available to pay its employees, suppliers, lenders, etc.
It is also possible that a company's inventory will become less in demand, perhaps become obsolete, or even deteriorate. If that occurs some of the company's money will be lost. Having slow-moving items in inventory also uses valuable space and makes the warehouse less efficient.

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Question - 40:

What is ROI?

Ans:

ROI is the acronym for return on investment. Originally the objective of ROI was to relate a return (the income statement benefit) to the amount invested (such as the asset information from the balance sheet).

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Question - 41:

What is the drawback of ROI?

Ans:

A drawback of ROI is that the accounting amounts (revenues, expenses, asset book values, etc.) ignore the time value of money. As a result, companies began using discounted cash flows to better assess the profitability of its investments. Calculations such as net present value and internal rate of return became common and ROI was referred to as the accounting rate of return.

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Question - 42:

What is current ratio?

Ans:

The current ratio is the proportion (or quotient or fraction) of the amount of current assets divided by the amount of current liabilities.

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Question - 43:

What is quick ratio?

Ans:

The quick ratio (or the acid test ratio) is the proportion of only the most liquid current assets to the amount of current liabilities.

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Question - 44:

What is working capital?

Ans:

Working capital is the amount of a company's current assets minus the amount of its current liabilities. For example, if a company's balance sheet dated June 30 reports total current assets of $323,000 and total current liabilities of $310,000 the company's working capital on June 30 was $13,000. If another company has total current assets of $210,000 and total current liabilities of $60,000 its working capital is $150,000.

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Question - 45:

How to illustrate the difference between the current ratio and the acid test ratio?

Ans:

To illustrate the difference between the current ratio and the acid test ratio, let's assume that a company has current liabilities of $50,000 and has the following current assets:
* Cash and cash equivalents $5,000
* Short-term marketable securities $10,000
* Accounts receivable, net $25,000
* Inventory $56,000
* Prepaid expenses $4,000

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Question - 46:

Can you please explain the difference between current ratio and the acid test ratio?

Ans:

The difference between the current ratio and the acid test ratio (or quick ratio) generally involves the current assets inventory, prepaid expenses, and some deferred income taxes.
The current ratio uses the total amount of all of the current assets.
The acid test ratio uses only the following current assets, which are considered to be quick assets: cash and cash equivalents, short-term marketable securities, and accounts receivable (net of the allowance for uncollectible accounts). In other words, the acid test ratio excludes inventory (which is a significant current asset for retailers and manufacturers) and some other amounts such as prepaid expenses and deferred income taxes (that are classified as current assets).

View All Answers

Question - 47:

How to illustrate net incremental cash flows?

Ans:

To illustrate net incremental cash flows let's assume that Your Corporation has the opportunity to purchase a product line from Divesting Company for a single cash payment of $800,000. Your Corporation expects that the product line will result in the following cash flows occurring in each year for 10 years:
* Additional cash receipts or cash inflows of $900,000 (from the collection of accounts receivable related to product sales)
* Additional cash payments or cash outflows of $750,000 (for payments related to the product line's costs and expenses)
These cash flows indicate that the net incremental cash flows are expected to be a positive $150,000 per year for 10 years, or that there will be net incremental cash inflows of $150,000 per year for 10 years.

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Question - 48:

Where Net incremental cash flows are necessary?

Ans:

Net incremental cash flows are necessary for calculating an investment's:
* Net present value
* Internal rate of return
* Payback period

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Question - 49:

What is Net incremental cash flow?

Ans:

Net incremental cash flows are the combination of the cash inflows and the cash outflows occurring in the same time period, and between two alternatives. For example, a company could use the net incremental cash flows to decide whether to invest in new, more efficient equipment or to retain its existing equipment.

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Question - 50:

Define incremental cash flows received after the payback period are ignored?

Ans:

Let's illustrate what this means by using two hypothetical projects which are being considered as an investment:
Project #187 has a payback period of 4 years. However, the amounts of the net incremental cash inflows are expected to decline beginning in Year 4 and are expected to end in Year 7.
Project #188 has a payback period of 6 years. However, the amounts of its net incremental cash inflows are positive and are expected to grow exponentially from Year 4 through Year 15.
While Project #187's payback period is faster, Project #188 is a significantly better investment. Hence, the limitation of using the payback period for ranking potential investments.

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Question - 51:

Define net incremental cash flows are usually not adjusted for the time value of money?

Ans:

This means that a net incremental cash inflow of $50,000 in the fourth year of an investment is deemed to have the same value or purchasing power as a $50,000 cash outflow that was part of the initial investment made four years earlier.

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Question - 52:

Can you please explain the difference between current ratio and working capital?

Ans:

To illustrate the difference between the current ratio and working capital, let's assume that a company's balance sheet reports current assets of $60,000 and current liabilities of $40,000. The company's current ratio is 1.5 to 1 (or 1.5:1, or simply 1.5) resulting from dividing $60,000 by $40,000. The company's working capital is $20,000 which is the remainder after subtracting $40,000 from $60,000.

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Question - 53:

Can you please explain the difference between current ratio and the quick ratio?

Ans:

To illustrate the difference between the current ratio and the quick ratio, let's assume that a company's balance sheet reports current assets of $60,000 and current liabilities of $40,000. Its current assets include $35,000 of inventory and $1,000 of supplies and prepaid expenses. The company's current ratio is 1.5 to 1 [$60,000 divided by $40,000]. Its quick ratio is 0.6 to 1 [($60,000 minus $36,000) divided by $40,000].

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Question - 54:

Define gross margin?

Ans:

Gross margin is the difference between:
1) the cost to produce or purchase an item, and
2) its selling price.
For example, if a company's manufacturing cost of a product is $28 and the product is sold for $40, the product's gross margin is $12 ($40 minus $28), or 30% of the selling price ($12/$40). Similarly, if a retailer has net sales of $40,000 and its cost of goods sold was $24,000, the gross margin is $16,000 or 40% of net sales ($16,000/$40,000).

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Question - 55:

Define leverage?

Ans:

In accounting and finance, leverage refers to the use of a significant amount of debt and/or credit to purchase an asset, operate a company, acquire another company, etc.

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