Dream Big Institution

No. 1 Platform For Preparation of Govt Exams

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(Memory Based Paper)

Accounting
&
Financial Management for Bankers

Q1. Which of the following statements accurately defines a bullet payment?

I. A single lump-sum payment settled at the end of a loan's term.
II. Consistent monthly payments spread across the duration of a loan.
III. The initial payment made at the commencement of a loan.
IV. A substantial payment made during the middle of a loan's term.

(A) Only I
(B) Only II
(C) II, III
(D) Either I or III

Q2. Which financial statement would reflect the expenditure incurred on the purchase of raw materials by a firm/company?

(A) Profit and Loss Statement
(B) Trading Account
(C) Balance Sheet
(D) Either A or B

Q3. What is a key difference between the Net Present Value (NPV) and Internal Rate of Return (IRR) methods of investment appraisal?

(A) NPV provides the actual monetary gain or loss, while IRR expresses returns as a percentage.
(B) NPV assumes reinvestment at the project's internal rate of return, while IRR assumes reinvestment at the cost of capital.
(C) NPV is used for short-term projects, while IRR is used for long-term projects.
(D) NPV is preferred for projects with uncertain cash flows, while IRR is used for projects with predictable cash flows.

Q4. Where would revenue generated from a business's core operations typically be recorded?

I. P&L Statement
II. Balance Sheet
III. Trading account
IV. Cash flow statement

(A) Only I
(B) Only III
(C) Either I or III
(D) I, II & III

Q5. What is the primary focus of Section 10 of the Income Tax Act?

(A) Incomes not included in total income
(B) Deductions for business expenses
(C) Taxation of capital gains
(D) None of the above

Q6. Under which section of the Income Tax Act can an individual claim deductions on health insurance premiums?

I. Section 80C
II. Section 80D
III. Section 80E
IV. Section $80CC$

(A) Only I
(B) Only IV
(C) Only II
(D) II, & III

Q7. In which of the following industries is Process Costing most likely to be used?

I. Oil refining
II. Automobile manufacturing
III. Chemical manufacturing
IV. Fashion designing

(A) Only I
(B) Only II
(C) Only I & III
(D) I, II, III, IV

Q8. Which of the following best describes the concept of "Margin of Safety" in business?

(A) The amount of profit a company makes above its competitors
(B) The cushion or buffer between actual sales and the break-even point
(C) The difference between gross profit and net profit
(D) The percentage of revenue allocated for operating expenses

Q9. Consider the given statements in the context of Marginal Costing. Choose the ones that is/are incorrect.

I. Under this method, all indirect costs are to be written off against profits, in the period in which they arise.
II. Under marginal costing, total costs are segregated into the fixed cost and the variable costs.
III. Under marginal costing technique, the inventory valuation may become unrealistic as fixed costs are not included in the value of workin-process and finished goods.
IV. It assumes that the sales price per unit will remain same irrespective of production and sales.

(A) Only II & IV
(B) Only II
(C) Only I & IV
(D) All the statements are correct.

Q10. What is the primary focus of a production budget?

(A) Estimating future sales figures
(B) Planning the resources needed for production activities
(C) Calculating the cost of production
(D) Analyzing the profitability of the production process

Q11. Which of the following statements about a bank reconciliation statement is correct?

I. A bank reconciliation statement is prepared to identify discrepancies between a company's accounting records and the bank statement.
II. A credit balance in the bank statement represents overdraft.
III. Bank service charges and interest earned are adjustments made on the company's books.
IV. A bank reconciliation statement is only necessary for large corporations and is not relevant for small businesses.

(A) I and II
(B) I and III
(C) II and III
(D) I, II, and III

Q12. Which of the following statements regarding standard costing are correct?

I. Standard costing involves setting predetermined cost levels for materials, labor, and overhead.
II. It provides a benchmark for evaluating actual performance against expected costs.
III. Standard costing is primarily used for historical cost reporting.
IV. Variances in standard costing can provide insights into areas of operational efficiency or inefficiency.

(A) I & II
(B) I, II & III
(C) I, II & III
(D) I, II & IV

Q13. What does a high debt/equity ratio indicate for a company?

(A) The company has a higher level of financial leverage
(B) The company is more conservative in its financing approach
(C) The company is at a lower risk of default
(D) None of the above

Q14. Which one of the following statements about Corporate Social Responsibility (CSR) is not correct?

I. Corporate social responsibility is traditionally grouped in four categories, viz. environmental, philanthropic, ethical, and economic responsibility.
II. The statutory obligations are laid down in Section 135 of the Companies Act, 2013 which, inter alia, mention the activities that a company can undertake under CSR.
III. The companies must disclose the details of the CSR activities separately in the Annual report of the Board of Directors.

(A) Only I
(B) Only II
(C) Only III
(D) All statements are correct

Q15. Which statement accurately describes the relationship between bond price and yield to maturity (YTM)?

(A) A bond's price and YTM are directly proportional.
(B) A bond's price and YTM are inversely proportional.
(C) A bond's price is not affected by its YTM.
(D) A bond's price is only affected by its face value.

Q16. Which statement best describes the Going Concern Principle in accounting?
(A) It means the business is guaranteed to be profitable in the future.
(B) It assumes that the business will continue its operations for the foreseeable future.
(C) It requires businesses to cease operations if they are not currently profitable.
(D) It implies that all expenses should be paid immediately to ensure ongoing operations.

Q17. What does the accrual concept in accounting entail?
(A) Recognizing revenue and expenses when they are incurred, regardless of when cash is exchanged
(B) Recording revenue and expenses only when cash is received or paid
(C) Recognizing revenue and expenses only at the end of the financial year
(D) lgnoring revenue and expenses in financial statements

Q18. Depreciation is computed for the following purposes:
I. To ascertain the current market value of an asset.
II. To distribute the cost of an asset over its useful lifespan.
III. To establish the salvage value of an asset.
IV. To compute the tax liability associated with an asset.
(A) Only I
(B) Only II
(C) II, III
(D) I, II, III, IV

Q19. Which of the following accurately defines the break-even point?
(A) The point at which a company covers all its costs and begins to generate profit
(B) The point at which a company's revenue equals its total expenses.
(C) The point at which a company's total sales revenue equals its variable costs.
(D) The point at which a company reaches its maximum production capacity.

Q20. Which accounting rule applies to Cash Account?
I. Debit all expenses and losses, credit all incomes and gains
II. Debit the receiver, credit the giver
III. Debit what comes in, credit what goes out
(A) Only I
(B) Only II
(C) Only III
(D) Either I or III

Q21. Which of the following can be used to calculate net worth?
I. Total Assets - Creditors
II. Capital + Reserves & Surplus
III. Current Assets - Current Liabilities
IV. Capital - Reserves & Surplus
(A) Only I
(B) Only I & II
(C) Only I & III
(D) Only II

Q22. How can Net Working Capital be calculated?
I. Total Assets - Total Liabilities
II. Current Assets - Current Liabilities
III. Current Assets + Current Liabilities
IV. Total Assets + Total Liabilities
(A) Only I
(B) Only II
(C) Only III
(D) I, II, III, IV

Q23. The formula for calculation of Quick Ratio:
I. $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ II. $\frac{\text{Current Liabilities}}{\text{Current Assets}}$
III. $\frac{\text{Current Assets - Inventory}}{\text{Current Liabilities}}$
IV. $\frac{\text{Current Liabilities -Inventory}}{\text{Current Assets}}$
(A) Only I
(B) Only III
(C) II, III
(D) I, II, III, IV

Q24. Under Section 80C of the Income Tax Act, an individual can claim a deduction for:
I. Medical insurance premium paid
II. Life insurance premiums
III. Contribution towards the Public Provident Fund (PPF)
IV. Repayments made towards the principal component of home loan EMIs
(A) Only I
(B) Only II
(C) Only II & III
(D) Only II, III, & IV

Q25. The East India Company, established by the British, was an example of:
I. Public Limited Company
II. Private Company
III. Partnership firm
IV. Joint Stock Company
(A) Only I
(B) Only II
(C) Only IV
(D) Both III & IV

Q26. A company has total assets worth Rs. 20,00,000 and its owners' equity (capital) is Rs. 8,00,000. What are the outside liabilities?
(A) ₹ 12,00,000
(B) ₹3,00,000
(C) ₹7,00,000
(D) ₹8,00,000

Q27. A company has current assets of Rs. 10,00,000 and current liabilities of Rs. 5,00,000. What is the working capital?
(A) Rs. 5,00,000
(B) Rs. 10,00,000
(C) Rs. 2,00,000
(D) None of the above

Q28. A company has current assets of Rs. 1,50,000, with Rs. 40,000 of that being inventory. Its current liabilities amount to Rs. 60,000. What is the quick ratio?
(A) 1.833
(B) 1.533
(C) 1.75
(D) 2

Q29. A company has total liabilities of Rs. 5,00,000 and total assets of Rs. 10,00,000. Calculate the debt to assets ratio.
(A) 0.25
(B) 0.5
(C) 0.75
(D) 1

Q30. Company ABC has a current stock price of Rs. 50 per share. Its earnings per share (EPS) for the last year were Rs. 5. Calculate the priceearnings ratio (P/E ratio).
(A) 10
(B) 20
(C) 50
(D) 500

Q31. A company has fixed assets worth Rs. 4,00,000 and long-term funds amounting to Rs. $6{,}00{,}000$. Calculate the fixed assets ratio.
(A) 0.33
(B) 0.5
(C) 0.67
(D) 1

Q32. A company purchases a machine for Rs. 50,000 with an estimated salvage value of Rs. 5,000 after 5 years. What will be the annual depreciation expense using the Straight Line Method (SLM)?
(A) ₹9,000
(B) ₹ 10,000
(C) ₹9,500
(D) ₹ 10,500

Q33. A company purchases a machine for Rs. 100,000. The estimated useful life of the machine is 5 years, and the salvage value is Rs. 10,000. Calculate the depreciation expense for the second year using the Written Down Value (WDV) method. If the company uses the reducing balance depreciation method with a depreciation rate of 20%, find the book value of the machine at the end of the third year?
(A) ₹46,080
(B) ₹86,400
(C) ₹49,830
(D) ₹51,360

Q34. When a company receives cash from a customer, which account will be debited and which account will be credited?
(A) Cash account will be debited; Customer's account will be credited
(B) Cash account will be credited; Customer's account will be debited
(C) Cash account will be debited; Sales account will be credited
(D) Cash account will be credited; Sales account will be debited

Q35. Which financial statement provides information about the cash flows of a company during a specific period?
I. Income Statement
II. Balance Sheet
III. Cash Flow Statement
IV. Statement of Retained Earnings
(A) Only I
(B) II & III
(C) Only III
(D) III & IV

Q36. NPV (Net Present Value), IRR (Internal Rate of Return), and ARR (Accounting Rate of Return) are concepts used in:
(A) Marketing Strategy
(B) Capital Investment Decisions
(C) Operations Management
(D) Equipment Leasing

Q37. Which of the following is an example of CSR (Corporate Social Responsibility)?
(A) Donating a portion of profits to a local charity.
(B) Providing employees with extra vacation days.
(C) Offering discounts to loyal customers.
(D) Increasing advertising budgets.

Q38. The straight-line depreciation method evenly distributes the cost of an asset over its useful life. Which statement is accurate regarding straightline depreciation?
(A) The depreciation cost remains consistent over the asset's useful life.
(B) The depreciation cost diminishes over the asset's useful life.
(C) The depreciation cost escalates over the asset's useful life.
(D) The concept of depreciation cost doesn't apply to intangible assets.

Q39. A company purchases a computer system for Rs. 80,000 with a salvage value of Rs. 10,000 after 4 years. Using the Straight-Line Method (SLM) of depreciation, what will be the annual depreciation expense?

(A) ₹20,000
(B) ₹40,000
(C) ₹50,000
(D) None of the above

Q40. What is the nominal rate of interest?
(A) The interest rate before accounting for inflation
(B) The interest rate adjusted for inflation
(C) The interest rate compounded annually
(D) The interest rate that is used in the calculation of present value

Q41. Which of the following statements is/are correct in the context of AS-1?
I. AS-1 deals with the disclosure in the financial statements of significant accounting policies followed in the preparation and presentation of such statements.
II. The purpose of this standard is to promote a better understanding of the financial statements by disclosures.
III. AS-1 specifies that all significant accounting policies adopted in the preparation of financial statements should be disclosed.
IV. If any of the fundamental accounting assumptions, viz., going concern, consistency and accrual is not followed, the fact should be disclosed.
(A) Only I
(B) Only II
(C) Only III
(D) I, II, III, IV

Q42. AS-5 deals with the treatment in the financial statements of a prior period and extraordinary items and changes in accounting policies. Select the statements which are correct in this context.
I. When the items of income and expense arising from the profit or loss from the ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.
II. Disposals of long-term investments require a separate disclosure.
III. Prior Period Items are incomes or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore, are not expected to recur frequently or regularly.
(A) Only I & II
(B) Only II
(C) Only II & III
(D) I, II, & III

Q43. Which of the following is/are the advantages of Bank Reconciliation Statement?
I. It enables the management to verify the precision of the entries recorded in the cash book.
II. It serves as a crucial control method for management.
III. It exposes any fraudulent activities carried out by cash and check-handling staff, thereby empowering management to exert effective control.
IV. It aids in identifying mistakes and allows for prompt corrective measures to be taken regarding balances.
(A) I & II
(B) II, III & IV
(C) II, III
(D) I, II, III, IV

Q44. A company purchases a piece of equipment for Rs. 8,20,000. The estimated useful life is 8 years and the salvage value is Rs. 65,000. If the company uses a depreciation rate of 20% using the Written Down Value (WDV) method, what will be the book value of the equipment after 2 years?

(A) ₹4,39,000
(B) ₹5,10,300
(C) ₹4,83,200
(D) ₹4,23,200

Q45. As per the annual Financial Statements in the form of Profit and Loss Account and Balance Sheet are required to be audited in accordance with the requirements of applicable statutes.

(A) Companies Act, 2013
(B) RBI Act, 1934
(C) Banking Regulation Act, 1949
(D) Both A and B

Q46. Which of the following is/are the disadvantages of computerized accounting?

I. Increased risk of security breaches
II. Initial setup cost and training expenses
III. Inability to carry out complex accounting transactions
IV. Reduced data accuracy

(A) Only I
(B) Only II
(C) Only I & II
(D) Only I, IV

Q47. What is a contract between two parties whereby they agree to exchange a stream of interest payments on a notional principal for a given period at pre-agreed intervals of time?

(A) Mortgage Agreement
(B) Loan Modification
(C) Interest Rate Swap
(D) Payment Plan

Q48. Costing refers to:

I. The process of calculating the overall expenses incurred in manufacturing a product or delivering a service.
II. Distributing costs to different divisions or cost centers within a company.
III. Analyzing costs to understand their patterns and connection with production levels.
IV. Determining a company's profit or loss by evaluating its revenue and expenditures.

(A) Only I
(B) Only II
(C) Only III
(D) I, II, III, IV

Q49. Which of the following statements is correct in the context of trading account?

I. It shows the revenues, expenses, along with net profit or loss of a company for a specific period.
II. The trading account calculates the gross profit or loss of a business by comparing the cost of goods sold with the sales revenue.

III. It includes only direct costs related to the purchase and sale of goods.
IV. The trading account is the first step in preparing the final accounts of a business.
(A) Only I
(B) Only II
(C) II, III, IV
(D) I, II, III, IV

Q50. Corporate Social Responsibility (CSR) entails:
I. Environmental protection
II. Social development
III. Ethical business practices
IV. Philanthropic giving
(A) Only I
(B) Only III
(C) Only II & III
(D) I, II, III, IV

Q51. What is the highest discount a company can provide when issuing new equity shares?
(A) 10% of the face value
(B) 5% of the face value
(C) 1% of the face value
(D) Fresh shares cannot be issued at discount

Q52. A company purchases machinery for Rs. 50 lakhs for its production facility. It pays 60% in cash and the remaining 40% through a bank loan. What will be the effect of this transaction on the company's financial position?
(A) Machinery increases by Rs. 50 lakhs, cash decreases by Rs. 30 lakhs, and there is a new liability of Rs. 20 lakhs.
(B) Machinery increases by Rs. 30 lakhs, cash decreases by Rs. 20 lakhs, and there is a new liability of Rs. 50 lakhs.
(C) Machinery increases by Rs. 50 lakhs, cash decreases by Rs. 20 lakhs, and there is a new liability of Rs. 30 lakhs.
(D) Machinery increases by Rs. 30 lakhs, cash decreases by Rs. 30 lakhs, and there is a new liability of Rs. 20 lakhs.

Q53. What is meant by Reserve Capital?
(A) The portion of subscribed but yet-to-be called-up capital.
(B) Profits that have been accumulated over several years.
(C) A segment of Capital Reserve set aside for specific purposes.
(D) A portion of Capital Redemption Reserve earmarked for future use.

Q54. A company issued 15,000. shares at Rs. 20 each, with an application money of Rs. 5 and an allotment money of Rs. 8. If 200 shareholders fail to pay the allotment money, resulting in the forfeiture of their shares, what will be the balance in the forfeiture account?
(A) Rs. 75,000
(B) Rs. 2000
(C) Rs. 1500
(D) Rs 1000

Q55. In bookkeeping, what does a debit represent?
(A) An entry on the left hand side of an account
(B) Decrease in asset
(C) Increase in liability
(D) An entry on the right hand side of an account

Q56. What kind of purchases are recorded in the Purchase Book (or Purchases Journal)?
(A) Credit purchases of goods-in-trade
(B) Cash purchases of goods-in-trade
(C) Both A and B
(D) Credit purchases of fixed assets

Q57. According to accounting principles, which valuation method should be applied for determining the value of closing stock?
(A) Take the higher of the purchase cost or market value.
(B) Take the average of the purchase cost and market value.
(C) Take the purchase cost only.
(D) Take the lower of the purchase cost or market value.

Q58. What is an error of omission in accounting?
(A) Failing to record a transaction in the books of accounts.
(B) Recording a transaction but with an incorrect amount.
(C) Recording a transaction on the wrong date.
(D) Incorrectly classifying a transaction in the financial statements.

Q59. In order to rectify a sale of Rs. 7,500 that was erroneously posted to Mohan instead of Sohan, which of the following journal entries should be made?
(A) Debit Mohan account and credit Sohan account with Rs. 7,500
(B) Debit Mohan account and credit Sales account with Rs. 7,500
(C) Debit Sales account and credit Sohan with Rs. 15,000
(D) Debit Sales account and credit Sohan account with Rs. 7,500

Q60. Most of the companies in India are statutorily required to spend at least of their average net profits, made during the previous financial years, towards the Corporate Social Responsibility (CSR) in the current financial year.
(A) 2%, 2
(B) 2%, 3
(C) 3%, 2
(D) 3%, 3

Q61. What kind of voucher is issued by the bank when it in case it issues cheques/pay orders?
(A) A debit voucher
(B) A credit voucher
(C) A composite voucher
(D) A consolidated voucher

Q62. A businessman purchased goods against cash from Mohan.
Which of the following accounts will be debited?
(A) Cash A/c
(B) Goods A/c
(C) Mohan's A/c
(D) Both A and B

Q63. A company has total assets worth Rs. 5,00,000 and total liabilities of Rs. 3,00,000. What is the net worth of the company?
(A) Rs. 8 lakhs
(B) Rs. 5 lakhs
(C) Rs. 3 lakhs
(D) Rs. 2 lakhs

Q64. Expenditures in accounting can be categorized into two main types: capital expenditures and revenue expenditures. What kind of expenditure is acquisition of machinery by a manufacturing firm?
(A) Capital expenditure
(B) Revenue expenditure
(C) Deferred revenue expenditure
(D) None of the above

Q65. In case of direct rates, if the forward rate is more than the spot rate, the is called as being at a
(A) base currency, premium
(B) base currency, discount
(C) foreign currency, premium
(D) None of the above

Q66. Calculate the interest differential using the following information:
- Forward points = 0.01650
- No. of days in the year = 365
- Spot rate = 1.25
- Forward period = 90.days

(A) 5.35%
(B) 4.50%
(C) 5.55%
(D) 5.90%

Q67. For a 4-year loan paid back in equal quarterly installments, which type of annuity results in a higher future value:
(A) Annual annuity
(B) Annuity due
(C) Special annuity
(D) Ordinary annuity

Q68. A person takes out a loan of Rs. 1,00,000 at an annual interest rate of 8% for a tenure of 3 years. What will be the monthly EMI (Equated Monthly Installment) amount?
(A) Rs. 3245
(B) Rs.3134
(C) Rs.3145
(D) None of the above

Q69. When a specified amount of money is needed at a specified future date, it is a good practice to accumulate systematically a fund by means of Such a fund is called a sinking fund.
(A) Random investments
(B) Lump sum payments
(C) Equal periodic deposits
(D) Variable contributions

Q70. What is a characteristic of callable bonds?
(A) They have a fixed interest rate.
(B) They are also known as zero-coupon bonds.
(C) They are not subject to interest rate risk.
(D) The issuer has the option to redeem them before maturity.

Q71. Calculate the Income Elasticity (IE) for a bond. If the percentage change in price for the bond in period ' t ' is 4% and the percentage change in yield to maturity for the bond is 2%, what is the Income Elasticity?
(A) 0.5
(B) 1
(C) 2
(D) 4

Q72. ABC Ltd. has an average inventory of Rs. 50,000 and its cost of goods sold (COGS) is Rs. 2,00,000. Calculate the stock turnover ratio.
(A) 3 times
(B) 4 times
(C) 5 times
(D) 6 times

Q73. Which of the following is a measure of liquidity of a company?
I. Inventory Turnover Ratio
II. Current Ratio
III. Quick Ratio
IV. Operating Ratio
(A) II & III
(B) I & II
(C) II & IV
(D) I, II, III

Q74. A is the home currency price of one unit of the foreign currency.
(A) Selling rate
(B) Buying rate
(C) Direct rate
(D) Indirect rate

Q75. A company is experiencing a 10% increase in its year-on-year profit, but it still maintains negative cash flow. How would you assess this situation in the long term?
(A) Favourable
(B) Unfavourable
(C) Insufficient information
(D) None of the above

Q76. Dividend paid is a part of which activity in the cash flow statement?
(A) Operating activities
(B) Investing activities
(C) Financing activities
(D) Either A or B

Q77. How is the amortization of patents treated in the cash flow statement?
(A) Added back to net income under Operating Activities
(B) Deducted from net income under Operating Activities
(C) Included under Investing Activities
(D) Included under Financing Activities

Q78. are oriented more towards growth as they discourage consumption and help enhance savings.
(A) Direct Tax
(B) Sales Tax
(C) Indirect tax
(D) Income Taxes

Q79. How is a budget typically expressed?
(A) Solely in monetary terms.
(B) Solely in physical units.
(C) In both monetary terms and physical units.
(D) In neither monetary terms nor physical units.

Q80. is designed to change as volume of output changes.
(A) Flexible Budget
(B) Fixed budget
(C) Master budget
(D) All of the above

Q81. In which type of accounting is the concept of break-even point primarily utilized?

(A) Tax Accounting
(B) Marginal Costing
(C) Management Costing
(D) Cost Accounting

Q82. Which of the following is an accurate formula of Margin of Safety?

(A) $\frac{\text{Sale Price}}{\text{Contribution}} \times 100$
(B) Total Sales - (Variable Cost + Fixed Cost)
(C) $\frac{\text{Estimated sales}}{\text{Break-even sales}} \times 100$
(D) $\frac{\text{Estimated Sales} - \text{Break even Sales}}{\text{Estimated Sales}} \times 100$

Q83. What is the primary significance of the Profit Volume (P/N) ratio in financial analysis?

(A) It gives an idea of profitability of each product.
(B) It can be used by the management to decide about pushing the sales of certain products.
(C) It is helpful in deciding whether to purchase certain components from outside or continue in-house production.
(D) All of the above

Q84. Which method of costing is typically used when a business produces similar items in large quantities?

(A) Job Costing
(B) Batch Costing
(C) Process Costing
(D) Contract Costing

Q85. Which of the following types of accounting uses financial planning as a tool?

(A) Cost Accounting
(B) Financial Accounting
(C) Management Accounting
(D) All of the above

Q86. Discounted cash flow (DCF) methods are a set of valuation techniques used to estimate the value of an investment based on its expected future cash flows.
Which of the following method is a discounting techniques of investment appraisal?

(A) IRR Method
(B) NPV Method
(C) Average Rate of Return
(D) Both A & B

Q87. Working capital loans are normally sanctioned for but are payable on demand.

(A) one year
(B) two year
(C) three years
(D) six months

Q88. Which of the following have Separate legal identity?
(A) Company
(B) Sole proprietary
(C) Partnership
(D) All of the above

Q89. Which theory focuses on the relationship between a company and its external constituencies, emphasizing duties and responsibilities?
(A) Agency Theory
(B) Stakeholder Theory
(C) Neither A nor B
(D) Both A & B

Q90. What primarily determines the value of a derivative?
(A) Historical performance of the underlying asset
(B) Current market conditions
(C) Expected future movements of the underlying asset
(D) Previous day's trading volume

Q91. Consider the following statements in the context of Swaps. Choose the one that is not correct.
(A) A swap is a custom tailored bilateral agreement in which cash flows are determined by applying a prearranged formula on a notional principal.
(B) In interest rate swap, there is no exchange of principal.
(C) Use of swap is not allowed in India.
(D) Swap can be used for asset liability management.

Q92. A firm borrows money for long-term primarily for:
(A) Financing capital investments and expansion
(B) Partly financing the current assets
(C) Purchasing fixed assets
(D) All of the above

Q93. The return on a bond/debenture, purchased by an investor in the secondary market, is equal to Yield to Maturity (YTM) of that bond/debenture.
What is the formula of YTM of a bond/debenture?
(M is the Maturity value, P is the present market value and n is the number of years left to maturity)
(A) $\frac{\text{Annual Interest Payment} + (M-P)}{0.6 \times M + 0.4 \times P}$
(B) Annual Interest Payment $+ \frac{(M-P)}{n}$
(C) $\frac{\text{Annual Interest Payment} + (M-P)}{0.6 \times P + 0.4 \times M}$
(D) Annual Interest Payment $+ \frac{(M-P)}{n}$

Q94. Which of the following factors can influence the capital structure of a firm?

I. Market demand for the firm's products

II. Cost of debt

III. Taxation

(A) Only I & II

(B) Only II

(C) Only III

(D) Only II & III

Q95. Which of the following factors does not contribute to an increase in risk and uncertainties in the banking sector?

(A) Rapid changes in economic conditions

(B) Complex financial products and derivatives

(C) Stringent regulatory policies

(D) None of the above is correct

Q96. The Institute of Chartered Accountants of India has issued to establish standards on procedures to be followed when an internal audit is conducted in an information technology environment.

(A) SA 15

(B) SA 16

(C) SA 13

(D) SA 14

Q97. Fill in the blank:

Each deductor is required to obtain a Tax Deduction Account Number (TAN), except when tax is deducted under _______ .

(A) Section 194-IA

(B) Section 193-IA

(C) Section 196-IA

(D) Section 198-IA

Q98. Profit is the financial gain that a business or individual earns from their activities. Which of the following factors influence profit directly?

I. Market demand

II. Employee satisfaction

III. Selling price

IV. Cost of Goods Sold

(A) Only I & III

(B) I, II, & III

(C) I, II, & IV

(D) I, III, & IV

Q99. A standard price is a predetermined or established cost that a company expects to incur in producing a unit of a product or delivering a service. It serves as a benchmark or reference point against which actual costs and performance can be compared.

Which of the following factors influences the determination of a standard price?

(A) Market demand

(B) Historical costs

(C) Employee preferences

(D) Advertising expenses

Q100. Costing is the process of determining the expenditure incurred in producing a product or providing a service. Correct costing is crucial for any business organisation as it has a direct bearing on all its sales and marketing strategies. Among the mentioned methods, which of the following is not the method of costing?

(A) Unit Costing

(B) Batch costing

(C) Contract costing

(D) Manufacturing costing

Answer Key

Q1.	(A)	Q21.	(B)	Q41.	(D)	Q61.	(A)	Q81.	(B)
Q2.	(D)	Q22.	(B)	Q42.	(A)	Q62.	(B)	Q82.	(D)
Q3.	(A)	Q23.	(B)	Q43.	(D)	Q63.	(D)	Q83.	(D)
Q4.	(C)	Q24.	(D)	Q44.	(C)	Q64.	(A)	Q84.	(C)
Q5.	(A)	Q25.	(C)	Q45.	(C)	Q65.	(A)	Q85.	(C)
Q6.	(C)	Q26.	(A)	Q46.	(C)	Q66.	(A)	Q86.	(D)
Q7.	(C)	Q27.	(A)	Q47.	(C)	Q67.	(B)	Q87.	(A)
Q8.	(B)	Q28.	(A)	Q48.	(A)	Q68.	(B)	Q88.	(A)
Q9.	(D)	Q29.	(B)	Q49.	(C)	Q69.	(C)	Q89.	(B)
Q10.	(B)	Q30.	(A)	Q50.	(D)	Q70.	(D)	Q90.	(C)
Q11.	(A)	Q31.	(C)	Q51.	(D)	Q71.	(C)	Q91.	(C)
Q12.	(D)	Q32.	(A)	Q52.	(A)	Q72.	(B)	Q92.	(D)
Q13.	(A)	Q33.	(A)	Q53.	(A)	Q73.	(A)	Q93.	(B)
Q14.	(D)	Q34.	(C)	Q54.	(D)	Q74.	(C)	Q94.	(D)
Q15.	(B)	Q35.	(C)	Q55.	(A)	Q75.	(B)	Q95.	(C)
Q16.	(B)	Q36.	(B)	Q56.	(A)	Q76.	(C)	Q96.	(D)
Q17.	(A)	Q37.	(A)	Q57.	(D)	Q77.	(A)	Q97.	(A)
Q18.	(B)	Q38.	(A)	Q58.	(A)	Q78.	(C)	Q98.	(D)
Q19.	(B)	Q39.	(D)	Q59.	(A)	Q79.	(C)	Q99.	(B)
Q20.	(C)	Q40.	(A)	Q60.	(B)	Q80.	(A)	Q100.	(D)

Hints & Solutions

Q1. Solution:

A bullet payment refers to a single large payment made at the end, or maturity, of a loan. This payment is typically larger than the regular installments paid during the term of the loan.

Q**2. Solution:**

Preparing a trading account is not a necessary step for preparation of the P&L account but many accountants prefer to prepare it. A trading account takes into account only the direct costs associated with the materials in which the firm is dealing. The operating costs are not included. This means that we calculate the 'Cost of Goods Sold' and subtract it from the Revenue to arrive at what is called 'Gross Profit'.

Thus, trading account reflect the expenditure incurred on the purchase of raw materials by a firm/company. If, however, a firm does not prepare a trading account, the same will be reflected in the $P\&LA/c$.

Q**3. Solution:**

The key difference between the Net Present Value (NPV) and Internal Rate of Return (IRR) methods of investment appraisal is that NPV provides the actual monetary gain or loss, while IRR expresses returns as a percentage.

NPV is calculated by discounting all future cash flows associated with an investment to their present value and then subtracting the initial investment cost. If the NPV is positive, the investment is considered to be profitable.

IRR is the discount rate that makes the NPV of an investment equal to zero. In other words, the IRR is the rate of return that the investment is expected to generate.

Q**4. Solution:**

The revenue generated from a business's core operations would typically be recorded in the Profit and Loss Statement or the Trading Account.

The Trading Account is a statement that shows the cost of goods sold and the gross profit earned by a business. The revenue generated from a business's core operations is the starting point for calculating the gross profit. Therefore, it is reflected in the Trading Account.

However, a firm may choose to not prepare the Trading Account and instead, only prepare a P&L Account. In such case, revenue is recorded in the latter.

Q**5. Solution:**

The primary focus of Section 10 of the Income Tax Act is incomes not included in total income. Section 10 of the Income Tax Act provides a list of incomes that are not included in the total income of an assessee. These incomes are exempt from income tax. Some of these incomes: agricultural income, share of a partner in the total income of the firm, the value of any travel concession or assistance received by an individual, gratuity received, sum received on voluntary retirement or termination of service, payment from an approved superannuation fund, scholarships granted to meet the cost of education etc.

Q**6. Solution:**

An individual can claim deductions on health insurance premiums under Section 80D of the Income Tax Act.

Section 80D allows individuals to claim a deduction of up to Rs. 25,000 for health insurance premiums paid for themselves and their dependents. The deduction limit is increased to Rs. 50,000 for senior citizens (i.e. above 60 years of age).

Q7. **Solution:**

Process costing is most likely to be used in the following industries:

- Oil refining
- Food processing
- Chemical manufacturing
- Textile manufacturing
- Paper manufacturing
- Glass manufacturing
- Cement manufacturing

These industries produce large quantities of identical or similar products, which makes process costing the most efficient way to calculate the cost of production.

The other options are incorrect:

- Automobile manufacturing: Automobile manufacturing is a complex process that involves the production of a wide variety of parts and components. Process costing is not typically used in this industry, as it would be difficult to accurately calculate the cost of each individual vehicle.
- Fashion designing: Fashion designing is a creative industry that is constantly evolving. Process costing is not typically used in this industry, as it would be difficult to accurately calculate the cost of each individual design.
-

Q8. **Solution:**

The answer is B. The cushion or buffer between actual sales and the break-even point.

The margin of safety in business is the difference between a company's actual sales and the sales level at which it breaks even. It is a measure of how much sales can decline before a company starts to lose money.

The margin of safety is important for businesses because it provides a cushion against unexpected events, such as a decline in sales or an increase in costs. A higher margin of safety gives a company more flexibility to absorb these shocks without becoming unprofitable.

Q9. **Solution:**

In marginal costing technique, only variable costs are charged to operations, processes or products, leaving all indirect costs to be written off against profits, in the period in which they arise. Thus, total costs are segregated into the fixed cost and the variable costs.

Under marginal costing technique, the inventory valuation may become unrealistic as fixed costs are not included in the value of work-in-process and finished goods. In case of seasonally sensitive products, this may result in inflated profit during the periods of higher sales and deflated profit during the periods of lower sales. The assumption under marginal costing, that the sales price per unit will remain same irrespective of production and sales is also not realistic.

Q10. **Solution:**

In the context of budgeting, a 'production budget' primarily involves detailed plans for the production activity that will take place in an upcoming period. This includes specifying the quantity of goods to be produced, the resources needed, and the timeline for production. This budget is a crucial component for businesses involved in manufacturing or production processes.

Q11. **Solution:**

I. A bank reconciliation statement is prepared to identify discrepancies between a company's accounting records and the bank statement. This statement is correct. A bank reconciliation statement helps reconcile the differences between the company's records and the bank statement.

II. A credit balance in the bank statement represents overdraft - This statement is incorrect. A debit balance in the bank statement represents overdraft.

III. Bank service charges and interest earned are adjustments made on the company's books. This statement is correct. Bank service charges and interest earned are adjustments that need to be made on the company's books to accurately reflect the transactions.

IV. A bank reconciliation statement is only necessary for large corporations and is not relevant for small businesses. - This statement is incorrect. A bank reconciliation statement is relevant for businesses of all sizes as it helps ensure accurate financial records.

Q**12.** **Solution:**

I. Standard costing involves setting predetermined cost levels for materials, labor, and overhead. - This statement is correct. Standard costing involves establishing predetermined cost levels for various elements of production.

II. It provides a benchmark for evaluating actual performance against expected costs. - This statement is correct. One of the primary purposes of standard costing is to provide a benchmark against which actual performance can be compared.

III. Standard costing is primarily used for historical cost reporting. - This statement is incorrect. Standard costing is used for both historical cost reporting and for providing a basis for future planning and control.

IV. Variances in standard costing can provide insights into areas of operational efficiency or inefficiency. - This statement is correct. Variances in standard costing highlight the differences between actual costs and the predetermined standards, allowing management to identify areas of operational efficiency or inefficiency.

Q**13.** **Solution:**

A high debt/equity ratio means that the company is relying more on debt to finance its operations, which can indicate a higher level of financial leverage. This implies that a significant portion of the company's operations are funded by borrowing, which can amplify both returns and risks for shareholders. It's worth noting that a high debt/equity ratio is not necessarily a negative thing, but it does indicate a different risk profile for the company compared to one with a lower debt/equity ratio.

Q**14.** **Solution:**

All the statements mentioned in the question are correct.

I. Corporate social responsibility is traditionally grouped in four categories, viz. environmental, philanthropic, ethical, and economic responsibility.

II. The statutory obligations are laid down in Section 135 of the Companies Act, 2013 which, inter alia, mention the activities that a company can undertake under CSR.

III. The companies must disclose the details of the CSR activities separately in the Annual report of the Board of Directors.

Q**15.** **Solution:**

The answer is B. A bond's price and YTM are inversely proportional.

This means that as the price of a bond increases, the YTM decreases, and vice versa. This is because the YTM is the discount rate that makes the present value of all future cash flows associated with the bond equal to its current price.

For example, if a bond with a face value of Rs. 1,000 and a coupon rate of 5% is trading at Rs. 1,100 , the YTM would be 4.32%. This is because a discount rate of 4.32% would make the present value of all future cash flows associated with the bond equal to Rs. 1,100 .

If the price of the bond were to fall to Rs. 900, the YTM would increase to 5.88%. This is because a discount rate of 5.88% would make the present value of all future cash flows associated with the bond equal to Rs. 900 .

Q**16. Solution:**

The going concern principle is a fundamental assumption of accounting that states that a business entity will continue to operate indefinitely unless there is evidence to the contrary. This means that accountants prepare financial statements based on the assumption that the business will continue to generate revenue and meet its obligations in the future. The going concern principle is important because it allows accountants to make reasonable estimates about the value of a company's assets and liabilities. For example, if an accountant believed that a company was likely to go out of business soon, they would value the company's assets at much lower amounts than if they believed that the company was going to continue operating for many years to come.

Q**17. Solution:**

The accrual concept in accounting is a fundamental concept that requires revenue and expenses to be recognized in the period in which they are earned or incurred, regardless of when the actual cash flows for the transaction are received or paid. This is in contrast to the cash basis of accounting, which recognizes revenue and expenses only when cash is received or paid.

The accrual concept is important because it provides a more accurate picture of a company's financial performance by matching revenues and expenses in the period in which they occur. This is essential for making informed business decisions and for preparing accurate financial statements.

Q**18. Solution:**

Depreciation is an accounting method used to allocate the cost of a long-term asset over its useful life. It is not used to ascertain the current market value of an asset, establish the salvage value of an asset, or compute the tax liability associated with an asset.

Q**19. Solution:**

The break-even point is the point at which a company's total revenue equals its total expenses. At this point, the company neither makes a profit nor incurs a loss. This means that all costs (both fixed and variable) are covered by the revenue generated from sales. Beyond the break-even point, any additional sales revenue contributes to profit.

Q**20. Solution:**

The Cash Account follows the accounting rule: "Debit what comes in, Credit what goes out." This means that when cash is received, it is recorded as a debit entry, and when cash is paid out, it is recorded as a credit entry. This rule helps in maintaining accurate records of cash transactions.

Q**21. Solution:**

The liabilities consist of liabilities towards owners (Capital + Reserves and Surplus = Net worth) and towards outsiders. In other words, Assets = Net worth + Creditors

Q**22. Solution:**

Net Working Capital (NWC) can be calculated by subtracting current liabilities from current assets. Therefore, the answer is B) Only II.

Formula for Net Working Capital:

NWC = Current Assets - Current Liabilities

Current assets are assets that are expected to be converted into cash within one year, such as cash, accounts receivable, and inventory. Current liabilities are liabilities that are expected to be paid within one year, such as accounts payable, short-term debt, and accrued expenses.

Q23. Solution:

The quick ratio, also known as the acid-test ratio, is a financial metric used to evaluate a company's short-term liquidity or its ability to cover immediate liabilities using its most liquid assets. It is a more conservative measure of liquidity compared to the current ratio because it excludes inventory from current assets.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Q24. Solution:

Section 80C of the Income Tax Act allows individuals to claim a deduction for a variety of investments and expenses, including:

- Life insurance premiums
- Contribution towards the Public Provident Fund (PPF)
- Repayments made towards the principal component of home loan EMIs

Medical insurance premium paid is not eligible for a deduction under Section 80C. It is eligible for a deduction under Section 80D of the Income Tax Act.

Q25. Solution:

The East India Company, established by the British, was one of the earliest and most significant examples of a joint-stock company. It was founded in the early 17 th century and played a major role in the trade and colonization of India. It was a joint-stock company because it allowed individuals to buy shares in the company, which represented ownership and entitled shareholders to a portion of the company's profits. This allowed for the pooling of capital from multiple investors to fund large-scale ventures, such as overseas trade expeditions.

Q26. Solution:

- Total Assets $(A) = \text{Rs. } 20{,}00{,}000$
- Capital $(\mathrm{C}) = \text{Rs. } 8{,}00{,}000$

Using the formula: Outside Liabilities = Assets Capital

Outside Liabilities = Rs. 20,00,000 - Rs. 8,00,000

= Rs. 12,00,000

Q27. Solution:

Working Capital = Current Assets - Current Liabilities

$= \text{Rs. } 10{,}00{,}000 - \text{Rs. } 5{,}00{,}000$

$= \text{Rs. } 5{,}00{,}000$

Q28. Solution:

The quick ratio, also known as the acid-test ratio, is calculated using the formula:

Quick Ratio

$$= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$= \frac{1{,}50{,}000 - 40{,}000}{60{,}000}$$

Quick Ratio $= 1.833$

Q29. **Solution:**

The debt to assets ratio is calculated using the formula:

Debt-to-equity ratio =

$$\frac{\text{Total Liabilities}}{\text{Total Assets}} = \frac{5,00,000}{10,00,000} = 0.5$$

Q30. **Solution:**

The price-earnings ratio (P/E ratio) is calculated using the formula:

$$\frac{\text{Price per share}}{EPS} = \frac{50}{5} = 10$$

Q31. **Solution:**

Fixed Assets Ratio =

$$\frac{\text{Fixed Assets}}{\text{Long-term Funds}} = \frac{4,00,000}{6,00,000} = 0.67$$

Q32. **Solution:**

Using the Straight Line Method (SLM), the annual depreciation expense is calculated as:

Depreciation Expense =

$$\frac{\text{Cost of asset} - \text{Salvage Value}}{\text{Number of years}} = \frac{50,000 - 5000}{5}$$

Depreciation Expense (Annual) = $\frac{45,000}{5} = 9000$

Q33. **Solution:**

Depreciation for first year =

$(1,00,000 - 10,000) \times 20\% = 18,000$

Book value at the end of first year = 72,000

Depreciation for second year = 20% of 72,000 =

14,400

Book value at the end of second year = Rs. 57,600

Depreciation for third year = 20% of 57,600 = 11,520

Book value at the end of third year = Rs. 46,080

Q34. **Solution:**

On selling a product against cash, following journal entry will be made:

Cash A/c Dr

To Sales A/c

Q35. **Solution:**

The Statement of Cash Flows is the financial statement that provides information about the cash flows of a company during a specific period. It categorizes cash inflows and outflows into operating activities, investing activities, and financing activities. The purpose of this statement is to show how changes in balance sheet accounts and income affect cash and cash equivalents.

Q**36.** **Solution:**

Capital investment decisions are decisions about whether or not to invest in a long-term asset, such as a new machine, a new building, or a new product line. These decisions are important because they can have a significant impact on the company's future financial performance.

Net present value (NPV) is a method of evaluating capital investment projects. It calculates the present value of all future cash flows associated with the project, and then subtracts the initial investment cost. If the NPV is positive, the project is considered to be acceptable.

Internal rate of return (IRR) is another method of evaluating capital investment projects. It calculates the discount rate that makes the NPV of the project equal to zero. If the IRR is greater than the company's weighted average cost of capital (WACC), the project is considered to be acceptable.

Accounting rate of return (ARR) is a simpler method of evaluating capital investment projects. It calculates the average annual return on investment, based on the project's accounting profits. If the ARR is greater than the company's required rate of return, the project is considered to be acceptable.

Q**37.** **Solution:**

The answer is A. Donating a portion of profits to a local charity.

Corporate social responsibility (CSR) is the practice of businesses taking responsibility for their impact on society and the environment. This can include activities such as donating to charities, volunteering for environmental causes, and adopting sustainable business practices. Donating a portion of profits to a local charity is a clear example of CSR. It is a way for businesses to give back to the communities in which they operate and to support causes that are important to their employees and customers.

Q**38.** **Solution:**

The statement that is accurate regarding straightline depreciation is:

I. The depreciation cost remains consistent over the asset's useful life.

Straight-line depreciation is a method of depreciation that evenly distributes the cost of an asset over its useful life. This means that the same amount of depreciation is expensed each year.

Q**39.** **Solution:**

Cost of the computer system = Rs. 80,000

Salvage value = Rs. 10,000

Useful life = 4 years

Annual depreciation expense = $\left(\frac{\text{Cost} - \text{Salvage Value}}{\text{Useful Life}}\right)$

$$\frac{(\text{Rs. }80{,}000 - Rs.10{,}000)}{4} = \frac{70{,}000}{4} = Rs.17{,}500$$

Q**40.** **Solution:**

The nominal rate of interest is the interest rate that is stated on a loan or investment, without any adjustments or fees. It is the rate of interest that is used to calculate the amount of interest that will be paid on a loan or investment. The nominal rate of interest does not take into account inflation, which is the rate at which prices for goods and services are rising. This means that the real rate of interest, which is the nominal rate of interest minus the inflation rate, may be lower than the nominal rate of interest.

Q**41.** **Solution:**

All four statements are correct in the context of AS-1.

Statement I: AS-1 deals with the disclosure in the financial statements of significant accounting policies followed in the preparation and presentation of such statements.

Statement II: The purpose of AS-1 is to promote a better understanding of the financial statements by disclosures.

Statement III: AS-1 specifies that all significant accounting policies adopted in the preparation of financial statements should be disclosed.

Statement IV: If any of the fundamental accounting assumptions, viz., going concern, consistency, and accrual is not followed, the fact should be disclosed.

AS-1 is an important accounting standard because it helps to ensure that financial statements are prepared and presented in a consistent and transparent manner. By disclosing their significant accounting policies, enterprises provide users of the financial statements with the information they need to understand how the financial statements have been prepared and to make informed assessments of the enterprise's financial performance and position.

Q**42.** **Solution:**

AS - 5 deals with the treatment in the financial statements of a prior period and extraordinary items and changes in accounting policies. Prior period items are incomes or expenses that arise in the accounts of current year because of a mistake or omission in the preparation of the financial statement of one or more prior periods. Extraordinary items are unusual items distinct from the day-to-day activities of an entity. The nature and significant amount of such items need to be provided for in the financial statements.
Ordinary activities are any activities that are undertaken by an enterprise as a part of its business. When the items of income and expense arising from the profit or loss from the ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

Circumstances, which may give rise to a separate disclosure of items of income and expense, include:

- the writing-off of inventories to net releasable value · a restructuring of the activities of an enterprise - disposals of items of fixed assets disposals of long-term investments · legislative changes having retrospective application · litigation settlements - other reversals of provisions
-

Q**43.** **Solution:**

Following are the advantages of preparing the bank reconciliation statement:

1. It helps the management to check the accuracy of the entries made in the cash book.
2. It helps to detect errors and to take timely action for the correction of balances.
3. It is a very important control technique for the management.
4. It shows the correct bank balance at any particular time.
5. It reveals frauds committed by the staff handling cash and cheques and thus, helps the management to have effective control.
6.

Q**44.** **Solution:**

Depreciation for first year =

$(8{,}20{,}000 - 65{,}000) \times 20\% = 1{,}51{,}000$

Book Value at the end of first year $= 6{,}04{,}000$

Depreciation for second year = $6{,}04{,}000 \times 20\% = 1{,}20{,}800$

Book Value at the end of second year $= 4{,}83{,}200$

Q45. Solution:

As per the Banking Regulation Act, 1949, annual Financial Statements in the form of Profit and Loss Account and Balance Sheet are required to be audited in accordance with the requirements of applicable statutes.

Q46. Solution:

Computerized accounting has many advantages, but it also has some disadvantages. Two of the main disadvantages are:

- Increased risk of security breaches: Computerized accounting systems can be vulnerable to security breaches, which can lead to the theft or destruction of sensitive financial data.
- Initial setup cost and training expenses: Computerized accounting systems can be expensive to set up and maintain, and employees may need to be trained on how to use them.

The other two options are not disadvantages of computerized accounting:

- Inability to carry out complex accounting transactions: Computerized accounting systems can be used to carry out complex accounting transactions, such as those required for multinational corporations or businesses with complex financial structures.
- Reduced data accuracy: Computerized accounting systems can help to improve data accuracy by reducing the risk of human errors.

Q47. Solution:

An interest rate swap is a contract between two parties whereby they agree to exchange a stream of interest payments on a notional principal for a given period at pre-agreed intervals of time. The notional principal is the amount of money on which the interest payments are based, but it is not actually exchanged between the parties.

Q48. Solution:

Costing is the process of determining the expenditure incurred in producing a product or providing a service. Correct costing is crucial for any business organisation as it has a direct bearing on all its sales and marketing strategies.

Q49. Solution:

Here is a brief explanation of each statement:

- I. It shows the revenues, expenses, along with net profit or loss of a company for a specific period. - This is the purpose of the profit and loss statement.
- II. The trading account calculates the gross profit or loss of a business by comparing the cost of goods sold with the sales revenue. This is correct.
- III. It includes only direct costs related to the purchase and sale of goods. - This is correct.
- IV. The trading account is the first step in preparing the final accounts of a business. This is correct.

Q50. Solution:

Corporate Social Responsibility (CSR) is the responsibility of businesses to contribute to the well-being of society. It is a broad concept that encompasses a wide range of activities, including:

- Environmental protection
- Social development
- Ethical business practices
- Philanthropic giving

Q51. **Solution:**

Except as provided in section 54 (issue of sweat equity), a company shall not issue shares at a discount. Any share issued by a company at a discounted price shall be void. Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued.

Q52. **Solution:**

When a company purchases machinery, it is considered a capital expenditure. Capital expenditures are recorded as assets on the balance sheet. Since the company is paying 60% in cash and 40% through a bank loan, the journal entry for the transaction would be as follows:

Machinery A/c Dr 50 lakhs

To Cash A/c	30 lakhs
To Bank Loan A/c	20 lakhs

This journal entry will increase the Machinery asset by Rs. 50 lakhs, decrease the Cash asset by Rs. 30 lakhs, and create a new liability of Rs. 20 lakhs for the Bank Loan.

Q53. **Solution:**

Reserve capital refers to the portion of capital that shareholders have agreed to subscribe but has not yet been called for payment. This amount is reserved for future use by the company.

Q54. **Solution:**

The balance in the forfeiture account will be the amount that is already paid by the shareholders. In this case, it will be $200 \times 5 = 1000$.

Q55. **Solution:**

In bookkeeping, a debit represents an entry made on the left-hand side of an account. This records an increase in assets or expenses, or a decrease in liabilities or equity.

Q56. **Solution:**

The Purchase Book (or Purchases Journal) records credit purchases of goods-in-trade. This specialized journal is used to keep track of purchases made on credit by a business for the purpose of reselling or using in the normal course of operations.

Q57. **Solution:**

The accounting principles tell us that we should take the lower of the purchase cost or market value for the closing stock.

Q58. **Solution:**

An error of omission occurs when a transaction is completely left out or not recorded in the books of accounts. This can lead to an inaccurate representation of the financial position of a company.

Q59. Solution:

The correct journal entry to rectify a sale of Rs. 7,500 that was erroneously posted to Mohan instead of Sohan is:
Debit Mohan account and credit Sohan account with Rs. 7,500
This journal entry will reverse the original incorrect entry and correct the account balances of Mohan and Sohan.

Q60. Solution:

Most of the companies in India are statutorily required to spend at least 2% of their average net profits, made during the three previous financial years, towards the Corporate Social Responsibility (CSR) in the current financial year. The companies must disclose the details of the CSR activities separately in the Annual report of the Board of Directors. The statutory obligations are laid down in Section 135 of the Companies Act, 2013 which, inter alia, mention the activities that a company can undertake under CSR.

Q61. Solution:

In case of cheques or pay orders issued by the bank, the bank would typically issue a "debit voucher". This is because when a bank issues a cheque or pay order, it is essentially creating a liability on its own books. When the cheque or pay order is presented for payment, the bank needs to reduce this liability by debiting the account from which the payment is made. Therefore, a debit voucher is used to record this transaction.

Q62. Solution:

The journal entry for purchase of goods against cash:
Goods A/c Dr.
To Cash A/c

Q63. Solution:

Net worth is calculated as Total Assets minus Total Liabilities. In this case, Rs. 5,00,000 - Rs. 3,00,000 = Rs. 2,00,000. This represents the residual interest in the assets of the company after deducting its liabilities.

Q64. Solution:

The acquisition of machinery by a manufacturing firm is considered a capital expenditure. This is because machinery is a long-term asset that provides benefits over an extended period, typically more than one year. It is used in the production process and contributes to the firm's ability to generate revenue over time.

Q65. Solution:

In case of direct rates, if the forward rate is more than the spot rate, the base currency is called as being at a premium. In case of direct rates, if the forward rate is less than the spot rate, the base currency is called as being at a discount.

Q66. Solution:

$$\text{IRD} = \frac{\text{Forward points} \times \text{No. of days in the year} \times 100}{\text{Spot rate} \times \text{Forward Period}}$$

$$\text{IRD} = \frac{0.01650 \times 365 \times 100}{1.25 \times 90}$$

$$\text{IRD} = 5.353\%$$

Q67. Solution:

An annuity due is a series of equal payments made at the beginning of each period. An ordinary annuity is a series of equal payments made at the end of each period.

For the same interest rate and number of payments, an annuity due will have a higher future value than an ordinary annuity. This is because the payments in an annuity due are made earlier, which gives them more time to earn interest.

Q**68.** **Solution:**

$$\text{EMI} = \frac{P \cdot r \cdot (1+r)^n}{(1+r)^n - 1}$$

Where: P = Principal amount (Rs. 1,00,000)

r = Monthly interest rate (8% annual rate /12 months = 0.6667% or 0.006667 as a decimal) n = Total number of payments (3 years × 12 months = 36)

$$\text{EMI} = \frac{100000 \cdot 0.006667 \cdot (1+0.006667)^{36}}{(1+0.006667)^{36} - 1} = 3134$$

69. **Solution:**

A sinking fund is a fund that is created by setting aside a specific amount of money on a regular basis in order to accumulate a certain amount of money by a future date. This can be done to save for a specific goal, such as a down payment on a house or a child's education, or to pay off a debt.

To create a sinking fund, you need to determine how much money you need to save by your target date and then divide that amount by the number of periods you have to save. For example, if you need to save Rs. 12,000 in 5 years, you would need to save Rs. 240 per month.

Q**70.** **Solution:**

Some bonds give the issuer the right to repay the bond before the maturity date on the call dates. This is known as the call option and such bonds are referred to as callable bonds. Most callable bonds allow the issuer to repay the bond at par. With some bonds, the issuer has to pay a premium, the so-called call premium.

Q**71.** **Solution:**

Income Elasticity (IE) is calculated as the percentage change in price divided by the percentage change in yield to maturity.

In this case, IE = 4% (percentage change in price) /2% (percentage change in yield to maturity) = 2.

Q**72.** **Solution:**

Stock Turnover Ratio = $\frac{CCCGS}{\text{Average Inventory}}$

Stock Turnover Ratio = $\frac{2,00,000}{50,000}$ = 4 times

Q**73.** **Solution:**

Current Ratio is a measure of a company's ability to pay its short-term liabilities with its short-term assets. It is calculated by dividing current assets by current liabilities. A higher current ratio indicates that a company has more current assets than current liabilities, which means that it is better able to meet its short-term obligations. Liquid/Quick Ratio is a measure of a company's ability to pay its short-term liabilities with its most liquid assets. It is calculated by dividing current assets minus inventory by current liabilities. A higher liquid ratio indicates that a company has more cash and other liquid assets available to meet its short-term obligations.

Q**74.** **Solution:**

A direct quote is the home currency price of one unit of the foreign currency.

An indirect quote is the foreign currency price of one unit of the home currency. Direct and indirect quotes are reciprocals of each other, which can be mathematically expressed as follows.

Direct quote = 1/ indirect quote and vice versa .

Q**75.** **Solution:**

A company's profit is a measure of its profitability, while its cash flow is a measure of its ability to generate and manage cash. It is possible for a company to be profitable but have negative cash flow, if it is investing heavily in new growth initiatives or has a lot of debt that it is servicing. However, in the long term, a company needs to have positive cash flow in order to survive and grow. If a company has negative cash flow, it will eventually run out of money and be forced to close down.

Q**76.** **Solution:**

The cash flow statement is one of the three main financial statements that shows the state of a company's financial health. The other two important statements are the balance sheet and income statement.

The cash flow statement measures the cash generated or used by a company during a given period. It is divided into three sections: operating activities, investing activities, and financing activities.

Operating activities include transactions that are directly related to the company's core business operations. Investing activities include transactions that involve the purchase or sale of long-term assets. Financing activities include transactions that involve the raising or repayment of capital.

Dividend paid is a distribution of a company's profits to its shareholders. It is a financing activity because it represents a return of capital to the shareholders.

Q**77.** **Solution:**

Amortization of patents is a non-cash expense, which means that it does not involve any actual outflow of cash.

Therefore, it is added back to net income under Operating Activities in the cash flow statement.

This is done to reconcile net income, which is an accrual-based accounting measure, to cash flow from operating activities, which is a cash-based accounting measure.

Q**78.** **Solution:**

Indirect taxes are oriented more towards growth as they discourage consumption and help enhance savings, while the direct taxes reduce savings and discourage big investments.

Q**79.** **Solution:**

A budget is a comprehensive plan that outlines financial and operational goals for a specific period. It includes estimates in both monetary values (money terms) and quantitative measures (physical units). This allows for a holistic approach in managing resources, where financial allocations are aligned with the corresponding quantities of goods or services to be produced or consumed.

Q**80.** **Solution:**

A flexible budget is a budget that is designed to change as the volume of output changes. This is in contrast to a fixed budget, which remains the same regardless of the volume of output.

Flexible budgets are useful for businesses that operate in volatile environments, where the volume of output can vary significantly from month to month. By using a flexible budget, businesses can better track their costs and expenses, and make better financial decisions.

Q81. Solution:

The concept of the break-even point is primarily utilized in Management Accounting. It is a crucial tool for managers to analyze the relationship between costs, volume, and profits. The breakeven point is the level of sales at which a business neither makes a profit nor incurs a loss. It helps in decision-making processes related to pricing strategies, production levels, and cost control measures. Financial Accounting focuses on reporting financial information to external stakeholders, Cost Accounting primarily deals with the costs associated with production, and

Tax Accounting is concerned with tax-related matters.

Q82. Solution:

The gap between the estimated/budgeted level of operations and the break-even level indicates the cushion available to the business for sustaining its operations in times of adversity. This is referred to as "Margin of Safety". It is expressed in percentage terms. In equation form, it can be expressed as under: $\frac{\text{Estimated Sales} - \text{Break even Sales}}{\text{Estimated Sales}} \times 100$

Q83. Solution:

The profit-volume (P/V) ratio is a financial metric that shows the relationship between profit and sales. It is calculated by dividing the profit by the sales. The P/V ratio is expressed as a percentage. The P/V ratio is a useful tool for financial analysis because it can be used to:

- Assess the profitability of each product: The P/N ratio can be calculated for individual products or for entire product lines. This information can be used to identify the most profitable products and to make decisions about where to allocate resources.
- Decide about pushing the sales of certain products: The P/V ratio can be used to identify products that have a high P/V ratio and that are therefore good candidates for sales promotion.
- Decide whether to purchase certain components from outside or continue inhouse production: The P/V ratio can be used to compare the cost of producing a component in-house to the cost of purchasing it from an outside supplier. If the P/N ratio of the component is high, then it may be more profitable to produce the component in-house.
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Q84. Solution:

Process costing is a method of costing that is typically used when a business produces similar items in large quantities. It is also known as continuous costing or flow costing.

In process costing, costs are accumulated for each stage of the production process, rather than for individual products or jobs. This is because it is difficult and impractical to track costs for each individual product when producing large quantities of similar items.

Once the costs for each stage of the production process have been accumulated, they are divided by the number of units produced at that stage to arrive at a cost per unit. This cost per unit is then used to value the inventory of finished goods and work in progress.

Q85. Solution:

Management accounting is the type of accounting that uses financial planning as a tool. It involves the process of preparing reports and accounts that provide timely and accurate financial and statistical information required by managers to make day-to-day and short-term decisions. This includes financial planning, budgeting, and forecasting. Cost accounting primarily focuses on the cost of production, while financial accounting is concerned with reporting financial information to external stakeholders.

Q86. **Solution:**

Both the IRR (Internal Rate of Return) method and the NPV (Net Present Value) method are discounting techniques of investment appraisal. Discounted cash flow (DCF) methods take into account the time value of money by discounting future cash flows to their present value. This is important because a dollar today is worth more than a dollar in the future.

The IRR method calculates the discount rate that would make the NPV of an investment equal to zero. The IRR is then compared to the company's weighted average cost of capital (WACC) to determine whether the investment is acceptable. If the IRR is greater than the WACC, the investment is considered to be acceptable. The NPV method calculates the present value of all future cash flows associated with an investment. The NPV is then compared to the initial investment cost to determine whether the investment is acceptable. If the NPV is positive, the investment is considered to be acceptable.

Q87. **Solution:**

Working capital loans are normally sanctioned for one year but are payable on demand. Term loans are payable as per the agreed repayment schedule, which is stipulated in the terms of the sanction. Therefore, for the purpose of matching assets and liabilities of the bank, term loans are considered long term assets while working capital loans are considered as short term assets. Practically, however, an enterprise continues to enjoy the working capital loan till it's working is satisfactory, while the term loan gets repaid over a period of time.

Q88. **Solution:**

A company is a separate legal entity from its owners, which means that the company has its own rights and liabilities. This means that the owners of a company are not personally liable for the company's debts.

A sole proprietorship and a partnership are not separate legal entities. This means that the owners of a sole proprietorship and a partnership are personally liable for the business's debts.

Q89. **Solution:**

The answer is B. Stakeholder Theory.

Stakeholder theory focuses on the relationship between a company and its external constituencies, emphasizing duties and responsibilities. It argues that companies should consider the interests of all stakeholders, which include employees, customers, suppliers, creditors, communities, and the government. Agency theory, on the other hand, focuses on the relationship between a company's managers and its shareholders. It argues that managers have a duty to act in the best interests of shareholders. Stakeholder theory is a broader concept than agency theory. It encompasses agency theory, but it also includes other stakeholders, such as employees, customers, and communities.

Q90. **Solution:**

The answer is C. Expected future movements of the underlying asset.

The value of a derivative is determined by the expected future movements of the underlying asset. This is because derivatives are contracts that derive their value from an underlying asset, such as a stock, bond, commodity, or currency.

Q91. **Solution:**

For trading In the Indian market, Banks are allowed to run a book on swaps which have an Indian Rupee leg. Banks can offer swaps, which do not have an Indian Rupee leg, to their customers but have to cover these with an overseas bank on a back-to-back basis. Thus, option (C) is incorrect.

Q92. Solution:

Firms borrow money for long-term purposes for a variety of reasons, including:

- Financing capital investments and expansion: Long-term borrowing can be used to finance large capital expenditures, such as the purchase of new equipment or the construction of a new factory. This can help firms to expand their operations and grow their business.
- Partly financing the current assets: Long-term borrowing can also be used to finance a portion of a firm's current assets, such as inventory. This can help firms to maintain adequate levels of working capital.
- Purchasing fixed assets: Fixed assets are long-term assets that are used in the production of goods or services. Long-term borrowing can be used to purchase fixed assets, such as land, buildings, and equipment.

Q93. Solution:

$$\text{YTM} = \frac{\text{Annual Interest Payment} + \frac{(M-P)}{n}}{0.6\times P + 0.4\times M}$$

Q94. Solution:

Market demand for the firm's products is a factor that influences the firm's revenue, not its capital structure.
Cost of debt is a factor that influences the firm's capital structure because it affects the cost of raising capital through debt financing.
Taxation is a factor that influences the firm's capital structure because it affects the tax advantages of debt financing.

Q95. Solution:

Stringent regulatory policies are designed to reduce risk and uncertainty in the banking sector. They do this by limiting the types of investments that banks can make, imposing capital requirements, and requiring banks to undergo regular stress tests.
The other options are all factors that can contribute to an increase in risk and uncertainty in the banking sector:

- Rapid changes in economic conditions can make it difficult for banks to accurately assess the creditworthiness of borrowers and to manage their liquidity risks.
- Complex financial products and derivatives can be difficult to understand and price, which can lead to losses for banks if they are not properly managed.
- Inflation can erode the value of banks' assets and make it more difficult for them to meet their obligations.
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Q96. Solution:

The Institute of Chartered Accountants of India has issued SA 14 to establish standards on procedures to be followed when an internal audit is conducted in an information technology environment. Appendix to SA 14 gives illustrative IT controls to be reviewed during IT audit in an IT environment.

Q97. Solution:

Each deductor is required to obtain a Tax Deduction Account Number (TAN), except when tax is deducted under Section 194-IA. TDS is required to be deducted irrespective of the mode of payment-cash, cheque or credit, and is linked to the TAN of the deductor and PAN of the deductee.

Q98. Solution:

Market demand, selling price, and cost of goods sold are all factors that influence profit. Employee satisfaction is not a direct factor in profit, but it can indirectly affect profit by impacting employee productivity and customer satisfaction.
Market demand is the quantity of goods or services that consumers are willing to buy at a given price. Higher market demand means that businesses can sell more products or services, which leads to higher profits.

Selling price is the amount of money that a business charges for its products or services. Higher selling prices lead to higher profits, assuming that costs remain the same.

Cost of goods sold (COGS) is the direct cost of producing or acquiring the goods or services that a business sells. Lower COGS lead to higher profits, assuming that selling prices remain the same. Employee satisfaction, while not a direct factor in profit, can indirectly affect profit by impacting employee productivity and customer satisfaction.

Q**99.** **Solution:**

Historical costs are the costs that a company has incurred in the past to produce a product or deliver a service. They are a key factor in determining standard prices because they provide a basis for estimating future costs.

The other options are not factors in determining standard prices:

- A. Market demand is a factor that companies consider when setting their selling prices, but it is not a factor in determining standard costs.
- C. Employee preferences are not a factor in determining standard costs.
- D. Advertising expenses are also not a factor in determining standard costs.
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Q**100.** **Solution:**

Manufacturing costing is not a method of costing.

The other options are all methods of costing:

- Unit costing is a method of costing that calculates the cost of each individual unit produced.
- Batch costing is a method of costing that calculates the cost of a batch of units produced.
- Contract costing is a method of costing that calculates the cost of a specific contract to produce goods or services.