Dream Big Institution

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(Memory Based Paper)

Accounting & Financial Management for Bankers

Q1. XYZ Corporation is a manufacturing company that sells its products to customers on credit. The company also incurs various expenses throughout the year, such as rent, utilities, and salaries. At the end of the accounting period, XYZ Corporation prepares its financial statements, which include the income statement and the balance sheet.
Which accounting concept is applied when XYZ Corporation makes adjustments regarding prepaid expenses and outstanding expenses in its final accounts and when it recognizes deferred revenue expenditure?
(A) Realisation concept
(B) Dual Aspect Concept
(C) Conservatism Principle
(D) Matching Concept

Q2. The auditors of Private Banks are appointed
(A) In the Annual General Meeting of the shareholders.
(B) By their Board of Directors.
(C) By the Chief Executive Officer (CEO) of the bank.
(D) By RBI

Q3. ABC Manufacturing Company purchased a machine for Rs. 1,00,000 with an estimated useful life of 5 years and an estimated total production of 50,000 units. In the first year, the machine produced 6,500 units.
Using the units of production method, what is the depreciation expense for the first year, if the salvage value of the machine is Rs. 10,000 ?
(A) Rs. 11,700
(B) Rs. 11,500
(C) Rs. 11,300
(D) Rs. 11,900

Q4. Which of the following formulas is accurate of the amount after an year if the interest is compounded quarterly?
(A) $P\left(1+\frac{r}{4}\right)$
(B) $P(1+4r)^4$
(C) $P\left(1+\frac{r}{4}\right)^4$
(D) $P\left(1+\frac{r}{4}\right)^{\frac{1}{4}}$

Q5. Company issues preference shares for a period exceeding but less than for projects.
(A) 30, 40, commercial
(B) 30, 40, infrastructure
(C) 20,30, commercial
(D) 20,30, infrastructure

Q6. What does the concept of "risk-return tradeoff" imply?
(A) The higher the risk, the lower the expected return.
(B) The higher the risk, the higher the expected return.
(C) The lower the risk, the higher the expected return.
(D) Both A and C

Q7. Company ABC has current assets of Rs. 1,50,000 and current liabilities of Rs. 75,000. Calculate the current ratio if inventory is Rs. 35,000.
(A) 2:1

(B) 1.53: 1
(C) 1: 2
(D) 1:1.53

Q8. If the risk-free return is 3%, the beta is 1.5 , and the expected return on the market portfolio is 10%, what is the required rate of return?
(A) 18%
(B) 13.5%
(C) 12%
(D) 11.5%

Q9. Which of the following is not a feature of capital expenditure?
(A) Involves long-term assets.
(B) Enhances the earning capacity of the business.
(C) Incurs regular and recurring costs.
(D) Yields benefits over an extended period.

Q10. Acceptances, endorsements and other obligations are shown under head in the balance sheet.
(A) Other Assets
(B) Other Liabilities
(C) Contingent Liabilities
(D) Borrowings

Q11. Which of the following is a correct point of difference between cost accounting and financial accounting?
I. Financial Accounting is primarily concerned with recording, summarizing, and reporting financial transactions to external stakeholders, while cost accounting provides detailed information about the costs associated with producing goods or providing services within an organization.
II. The reports in cost accounting, unlike financial accounting, can be generated more frequently (like daily, weekly).
III. The main audience of cost accounting is investors, creditors, government agencies, and the general public, while that of financial accounting is managers, executives, and department heads.
IV. Financial accounting must adhere to established accounting standards and regulations, while cost accounting is not subject to external regulatory standards or requirements.
(A) I, II and IV only
(B) II and IV only
(C) I and III only
(D) II, III and IV only

Q12. In a small town, Shikha decides to open a bakery. She carefully separates her personal finances from the finances of the bakery. She opens a separate bank account for the bakery, maintains distinct accounting records, and ensures that all financial transactions related to the bakery are conducted through the business account. Shikha even goes the extra mile to obtain a unique business name and legal registration for her bakery.
Which accounting concept is primarily applied in Shikha's approach to managing her bakery's finances?
(A) Money Measurement Concept
(B) Business Entity Concept
(C) Going Concern Concept
(D) Dual Aspect Concept

Q13. Mining Rights and Computer Software are shown under which of the following heads of a balance sheet?
(A) Intangible assets
(B) Non-current investments
(C) Other non-current assets
(D) Inventories

Q14. What is the correct journal entry in the drawer's books in the case of payment of a bill of exchange?
(A) Debit: Cash/Bank A/c. Credit: Bills Receivable A/c
(B) Debit: Bills Payable A/c. Credit: Cash/Bank A/c.
(C) Debit: Cash/Bank A/c. Credit: Bills Payable A/c
(D) Debit: Bills Receivable A/c. Credit: Cash/Bank A/c.

Q15. The cash flow arising from trading securities is termed as:
(A) Operating Cash Flow
(B) Investing Cash Flow
(C) Financing Cash Flow
(D) Market Cash Flow

Q16. Which of the following is not a category of standard used in standard costing?
(A) Basic Standard
(B) Ideal Standard
(C) Currently Attainable Standard
(D) Historical Standard

Q17. A reserve specifically represented by earmarked investments shall be termed as a:
(A) General Reserve
(B) Capital Reserve
(C) Fund
(D) Surplus

Q18. What is the inherent assumption in the case of simple interest?
(A) Interest is calculated only on the initial principal amount.
(B) Interest is calculated on the initial principal amount, along with the interest of first year.
(C) The interest rate changes periodically.
(D) Interest is calculated on both the principal and the accumulated interest.

Q19. Which of the following is not a feature of the straight line method of depreciation?
(A) The charge to the Profit & Loss account is spread evenly over the life of such asset.
(B) This method is more relevant where the particular Asset is expected to give constant/consistent performance over an extended period of time over the useful life.
(C) This method is more relevant where the particular Asset is expected to give better performance in the initial periods of use as compared to the latter.
(D) All of the above are features of SLM method of depreciation.

Q20. Which of the following statements is correct in the context of interest rate options?
I. Interest Rate options are fundamentally of two types: the Cap and the Floor.
II. The option contract is on-balance sheet to the parties entering the transaction.

III. Allows the option purchaser to acquire or shed exposure to the underlying asset without the necessity to purchase or sell the asset itself. IV. The key element of the option contract is the ability of an option seller to get asymmetric exposure to price fluctuations in the underlying asset.

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

Q21. Which of the following assets require a general provision of 15% on total outstanding?

(A) Standard Asset
(B) Doubtful Asset
(C) Sub-Standard Asset
(D) Loss Asset

Q22. Which of the following are the conditions that need to be met for an asset to be classified as a cash equivalent?

I. The asset should have a short maturity period, typically twelve months or less from the date of acquisition.
II. It is subject to an insignificant risk of change in value.
III. The asset should be readily convertible into a known amount of cash.

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

Q23. Which of the following statements is correct in the context of the payback period?

I. It is expressed in terms of the number of years.
II. Different industries or companies may have varying acceptable payback periods based on their risk tolerance and capital structure.
II. It takes into account the time value of money.
IV. It ignores profitability measures.
V. It considers cash flows beyond the payback period.

(A) I, III and V only
(B) I, II and V only
(C) I, III and IV only
(D) I, II and IV only

Q24. The balance of A/c gets reflected in the credit side of the trial balance.

(A) drawings
(B) purchases
(C) suppliers
(D) sales return

Q25. When does a bill of exchange become a legal document?

(A) Upon acceptance by the drawee
(B) Upon issuance by the drawer
(C) Upon endorsement by the payee
(D) Upon presentation to the bank

Q26. Which of the following statements is correct with respect to bonds?

I. For a given difference between the YTM and coupon rate of the bonds, the smaller the term to maturity, the greater will be the change in price with a change in YTM.
II. For any given change in YTM, the percentage price changes in the case of bonds of a high coupon rate will be smaller than in the case of bonds of a low coupon rate, with other things remaining the same.
III. When the required rate of return (kd) is greater than the coupon rate, the premium on the bond declines as maturity approaches.
IV. A change in the YTM affects the bonds with a lower YTM more than it does bonds with a higher YTM.
V. When the required rate of return is more than the coupon rate, the value of the bond is greater than its par value.
(A) I, II and IV only
(B) I, III and V only
(C) II only
(D) III, IV and V only

Q27. To be useful and helpful to users, financial statements should be:
I. Voluminous
II. Relevant
III. Reliable
IV. Comparable
(A) I and II only
(B) II, III and IV only
(C) III and IV only
(D) I, II, III and IV only

Q28. Company XYZ has a Profit Volume Ratio of 30%, a Sale Price per unit of Rs. 50, and Fixed Costs of Rs. 60,000. Calculate the Break-Even Point in units.
(A) 3500 units
(B) 4000 units
(C) 4500 units
(D) 5000 units

Q29. ABC Ltd. is considering an investment in a new project that requires an initial investment of Rs. 5,00,000. The expected annual net income (after tax) from the project is:
1st year = 50,000
2nd year = 25,000
3rd year = 44,000
4th year = 38,000
5th year = 46,000
The project's useful life is five years. Calculate the Accounting Rate of Return (ARR) for the investment.
(A) 10.34%
(B) 16.24%
(C) 15.48%
(D) 21.56%

Q30. Which of the following journal entries is passed in the books of drawee on discounting of bill with a bank by drawer?
(A) Debit: Bank A/c. Credit: Discount A/c
(B) Debit: Discount A/c. Credit: Bank A/c
(C) Debit: Discount A/c. Debit: Bank A/c. Credit: Bills Receivable A/c
(D) No entry

Q31. Which of the following is related to inter-bank transactions?

(A) Branch Adjustment Account
(B) Lockers
(C) Money at Call and Short Notice
(D) Acceptance Endorsements and Other Obligations

Q32. Which of the following statements is correct in the context of the Bank Reconciliation Statement?

I. The Passbook is a mirror image of the cash book in the sense that credit entries in the cash book are reflected as debit entries in the passbook and debit entries in the cash book are reflected as credit entries in the passbook.
II. Causes of difference between passbook and cashbook can be grouped under three headings.
III. Amount Collected by Bank on Standing Instruction is an entry which does not require a change in the cashbook.
IV. On dishonour of a cheque deposited by the trader, the bank will credit the customer's account.

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

Q33. Which of the following will not affect the trial balance?

I. Compensating Errors
II. Error of Commission
III. Error of Complete Omission
IV. Error of Principle

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

Q34. Which of the following need not prepare a Cash Flow Statement?

(A) A publicly traded company
(B) One Person Company
(C) A government company
(D) All of the above has to prepare a cash flow statement.

Q35. Select the correct option which represents the classification of a company on the basis of ownership.

(A) Subsidiary Company
(B) Holding Company
(C) Chartered Company
(D) Registered Company

Q36. Which of the following is a step that can be taken to mitigate the agency problem in an organisation?

I. Full transparency in all the operations.
II. Placing restrictions on the capabilities of the agents/managers.
III. Linking CEO compensation directly to stock price performance.
IV. Linking the compensation structure of the agent to the gains of the principal.

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

Q37. Select the correct option which represents the full form of LERMS.
(A) Liberalised Exchange Rate Management System
(B) Limited Exchange Rate Monitoring System
(C) Liberalised Exchange Rate Monitoring System
(D) Local Exchange Rate Monitoring System

Q38 What kind of tool is linear programming?
(A) Financial management tool for budgeting
(B) Mathematical optimization tool for decisionmaking
(C) Communication tool for team collaboration
(D) All of the above

Q39. Which of the following statements is incorrect in the context of the Accomodation Bill?
(A) In accommodation bills, there is no debtorcreditor relationship between the parties concerned.
(B) Before the due date, the drawer remits the amount utilised by him to the drawee, and the drawee then meets the bill by making full payment to the bank.
(C) The accounting treatment of accommodation bills is different from normal trade bills.
(D) The discount loss must be shared by both parties in the same proportion in which they share the proceeds of the bill.

40. Income Tax in India is governed by all of the following except:
1. Income Tax Act, 1961
2. Income Tax Rules, 1962
3. Reserve Bank of India Act, 193
4. The finance budget
(A) 3 and 4 only
(B) 4 only
(C) 3 only
(D) 2, 3 and 4 only

Q41 Match the following in the context of AS-10.

List A	List B
I. The carrying amount of an item of PPE	1. is a directly attributable cost.
II. Items of PPE retired from active use and held for disposal	2. the difference of cash price equivalent and total payment is recognised as interest over the period of credit unless such interest is capitalized as per AS 16, Borrowing Costs.
III. Costs of site preparation	3. should be stated at the lower of their carrying amount and net realisable value.
IV. If an item of PPE is acquired under a deferred payment plan	4. should be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

(A) I - 4, II - 3, III - 1, II - 2
(B) I - 1, II - 3, III - 4, II - 2
(C) I - 1, II - 2, III - 4, II - 3
(D) I - 4, II - 2, III - 1, II - 3

Q42. Cash payment for self-constructed property is to be classified as:
(A) Cash Flow from Financing Activities
(B) Cash Flow from Investing Activities
(C) Cash Flow from Operating Activities
(D) Either B or C

Q43. Which of the following is a composite voucher?
(A) Challans for deposits into the accounts of Central/State Government
(B) Letter of credit issued by the branch
(C) Term deposit receipts presented for payment
(D) Pay order issued by the branch itself, cancelled at the request of the customer, and the amount is refunded to him.

Q44. Which of the following statements is correct in the context of the accounting system of banks?
I. Banks place quite a lot of emphasis on books of prime entry, such as cash books or journals.
II. Banks follow the accounting procedure of 'voucher posting' under which the vouchers are straightaway posted to the individual accounts in the subsidiary ledgers.
III. The general ledger trial balance is prepared every week.
IV. Transactions in a bank are of three types: cash, non-cash and transfer transactions.
(A) I and II only
(B) I and IV only
(C) II only
(D) II and III only

Q45 Arrange the following steps in the standard costing system in chronological order.
1. Initiating corrective actions in areas showing variance
2. Decision on the pricing of the products and preparing the budget for sales and profit.
3. Analysing the variances and ascertaining the causes of variances
4. Determining the standard costs of materials, labour and overheads for the production line.
5. Finding out the variances of various cost components
6. Segregating, ascertaining and recording the actual costs and profits
7. Readjusting the cost standards, pricing, estimated volume and recasting the budget to make it more realistic.
(A) 2 – 4 – 6 – 5 – 3 – 7 – 1
(B) 4 – 2 – 6 – 5 – 3 – 7 – 1
(C) 2 – 4 – 6 – 5 – 3 – 1 – 7
(D) 4 – 2 – 6 – 5 – 3 – 1 – 7

Q46. Which of the following is not a nominal account?
I. Cash A/c
II. Capital A/c
III. Salary A/c
(A) III only
(B) I and II only
(C) II only
(D) I and III only

Q47. Which of the following transaction of bank is exempt from GST?
(A) Actionable Claims

(B) Pension fund services
(C) Processing fees on loans
(D) All of the above

Q48. A tyre manufacturer has received an order to supply 50 identical tyres. The company estimates the requirements of materials at ₹ 75,000 , labour at ₹40,000, and manufacturing overheads at ₹15,000. As per the company's policy, the fixed/non-manufacturing overheads are allocated at 15% of the material cost. What will be the cost of one tyre?
(A) Rs. 2375
(B) Rs. 3465
(C) Rs. 2825
(D) Rs. 3225

Q49. What is the definition of transfer pricing?
(A) The process of selling goods or services between different departments within the same organization.
(B) Transfer pricing refers to the internal pricing of goods and services within a single division of a company.
(C) Transfer pricing involves determining the costs of goods and services when different divisions of a multi-entity company transact with each other, especially in cross-border transactions.
(D) Transfer pricing is the negotiation of prices between a company and its customers in different geographical locations.

Q50. XYZ Corporation, a publicly listed company, is contemplating the issuance of bonus shares to its existing shareholders. The company has witnessed significant growth in its operations and wants to reward its shareholders by issuing bonus shares. The board of directors is in the process of evaluating this decision, considering various factors.
As part of the decision-making process, the board is assessing the conditions that need to be met for the issuance of bonus shares. In the context of XYZ Corporation's consideration to issue bonus shares, which of the following is correct?
I. No issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.
II. A company which announces its bonus issue after the approval of the board of directors and does not require shareholders' approval for capitalisation of profits or reserves for making bonus issue as per the Articles of Association shall implement the bonus issue within thirty days from the date of such approval and shall not have the option of changing the decision.
III. A company can issue bonus shares out of its free reserves and the securities premium account but not from the capital redemption reserve account.
IV. The bonus shares shall not be issued in lieu of dividends.
(A) II and III only
(B) I and IV only
(C) II and IV only
(D) II and III only

Q51. If the present market value of equity shares of the firm is Rs. 150 and the expected earnings per share for the next year is Rs. 10. what will be the required rate of return on the firm's equity capital?
(A) 15%
(B) 14.33%
(C) 6.67%
(D) 5%

Q52. Which of the following statements is correct in the context of the accounting system followed by the lessee?

(A) At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.
(B) At the commencement date, a lessee shall measure the right-of-use asset at cost.
(C) In the statement of profit and loss, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset.
(D) All of the above

Q53. P accepts the bill drawn by Q for Rs. 5000. Which of the following is a correct journal entry passed in the books of P?
(A) Debit: Q's A/c. Credit: Cash/Bank A/c
(B) Debit: Cash/ Bank A/c. Credit: Q's A/c
(C) Debit: Q's A/c. Credit: Bills Payable A/c
(D) Debit: Bills Payable A/c. Credit: Q's A/c

Q54. Which of the following journal entries is passed in the books of *A* if a bill of exchange drawn by *A* is honoured on maturity?
(A) Debit: Cash/Bank A/c. Credit: Bills Receivable A/c
(B) Debit: Bills Receivable A/c. Credit: Cash/Bank A/c.
(C) Debit: Cash/Bank A/c. Credit: Bills Payable A/c
(D) Debit: Bills Payable A/c. Credit: Cash/Bank A/c.

Q55. Which of the following statements is correct in the context of AS-19?
I. This accounting standard comes into effect in respect of all assets leased on or after 1st April, 2001 and is mandatory.
II. AS-19 does not apply to agreements that are contracts for services that do not transfer the right to use the assets from one contracting party to the other.
III. From an accounting perspective, leases can be only of three types: Operating lease, Finance lease, and Leveraged lease.
IV. An operating lease is classified as a dry lease if the lessor provides the know-how and related services for operating the asset and takes care of its insurance and maintenance.
V. If The lease term is substantially less than the economic life of the asset, the lease is classified as a finance lease.
(A) I, II and IV only
(B) I and II only
(C) II, III, IV and V only
(D) III and *V* only

Q56. Choose the incorrect statement in the context of the bill of exchange.
I. A bill of exchange can be drawn upon any person, including a bank.
II. A bill of exchange does not require to be stamped.
III. The acceptor of a bill of exchange is allowed two days of grace after the date of maturity of the bill.
(A) Only II
(B) I and II only
(C) II and III only
(D) I, II and III

Q57. _________ is a source of long-term funds.
(A) Term Loan
(B) Commercial Paper

(C) Factoring
(D) Forfaiting

Q58. Forfeiture of shares occurs when a shareholder fails to make the required payment for shares within the specified timeframe or as per the terms of the allotment. In such cases, the company has the right to forfeit, or cancel those shares. Which of the following journal entries is passed in case of forfeiture of shares?
(A) Share Capital A/c Dr.
To Calls in Arrears A/c
To Forfeited Shares A/c
(B) Share Capital A/c Dr.
Calls in Arrears A/c Dr.
To Forfeited Shares A/c
(C) Share Capital A/C Dr.
To Forfeited Shares A/c
(D) None of the above

Q59. A company is considering an investment project that requires an initial cash outflow of Rs. 1,00,000. The project is expected to generate cash inflows of Rs. 30,000 in the first year, Rs. 40,000 in the second year, and Rs. 50,000 in the third year. The discount rate is 10%. What is the Net Present Value (NPV) of the investment? Note:

Discounting Factors (@10%)	0.909	0.826	0.751
Year	1	2	3

(A) 2140
(B) –2140
(C) –1990
(D) 1990

Q60. In the context of a lease agreement, the term "lessee" refers to:
(A) The party granting the lease
(B) The party receiving the lease
(C) The broker facilitating the lease
(D) The regulatory authority overseeing the lease transaction

Q61. Which of the following statements is correct in the context of the funds flow statement?
I. Sources of funds are indicated by a decrease in assets and an increase in liabilities over the previous year, while applications of funds are associated with an increase in assets and a decrease in liabilities over the previous year.
II. This statement needs to be segregated into flows from operating, financing and investing activities.
III. This statement uses a cash system of accounting.
IV. This statement helps in assessing the long term financial strategy of a business.
V. An increase in non-current assets will be shown under sources of funds.
(A) I, III and IV only
(B) I and V only
(C) I and IV only
(D) I, II, IV and V only

Q62. Variable rates are also known as:
(A) Fixed rates

(B) Changing rates
(C) Market rates
(D) Floating rates

Q63. The ROI is a concept that measures:
(A) The total revenue generated by a firm
(B) The profit earned on investing a unit of capital
(C) The market share of a company
(D) The total assets owned by a business

Q64. Which of the following is correct in the context of balancing of account?
I. Where the debit side of an account is less than the credit side, then the difference is put on the credit side, and the account is said to have a debit balance.
II. If the debit side total is more, put the difference on the credit side amount column, by writing the words 'By Balance c/d '.
III. The debit balance of an account may represent either an asset or an expense. If such balance relates to a 'Personal Account' it reflects debtors.
(A) II only
(B) I and II only
(C) II and III only
(D) III only

Q65. XYZ Corporation, a well-established company, recently decided to change its method of depreciation for its long-term assets. The company transitioned from the straight-line method to the written down value method to better reflect the pattern of the asset's economic benefits over time. The change was implemented at the beginning of the current fiscal year.
Despite the change in depreciation methodology, XYZ Corporation upheld transparency in its financial reporting. In the annual financial statements, the company provided a clear disclosure of the impact of the change on its financial position, net income, and other relevant financial metrics. The management believed that this disclosure was crucial to assist stakeholders in understanding the reasons behind the change and its implications.
In the scenario described, what accounting principle/convention is inferred from the company's disclosure of the impact of changing the method of depreciation?
(A) Materiality
(B) Conservatism
(C) Consistency
(D) Both B and C

Q66. A company manufacturing LED bulbs has the following financial information:
a. Fixed overhead costs: ₹ 2,20,000
b. Cost of all direct inputs like material, labor, utilities, etc. per bulb: ₹ 45
c. Variable overhead costs: ₹ 75,000
d. Total bulbs produced in the year: 20,000
What is the total manufacturing cost for the LED bulbs in the given year using the absorption costing approach?
(A) Rs. 14.75
(B) Rs. 48.25
(C) Rs. 48.75
(D) Rs. 59.75

Q67. ABC Construction Company, a leading firm in the construction industry, has secured a longterm contract to build a commercial complex. To mitigate some market risks, the contract includes an escalation clause. The terms of the contract clearly outline the methodology for calculating adjustments, providing transparency and clarity to both parties involved.

What does the escalation clause in the contract primarily safeguard the contractor against?

(A) Changes in project scope
(B) Fluctuations in currency exchange rates
(C) Price changes of input costs
(D) Delay in project completion deadlines

Q68. A bill of exchange was created and issued by ' X ' against 'A' for a payment of Rs. 20,000. What will be the journal entry in the books of ' X if the bill is endorsed towards a third party, ' Z '?

(A) Debit: Z's A/c. Credit: X's A/c
(B) Debit: Z's A/c. Credit: Bills Receivable A/c
(C) Debit: A's A/c. Credit: Bills Receivable A/c
(D) Debit: Z's A/c. Credit: Bills Payable A/c

Q69. A principal amount of Rs. 57,000 is invested at a simple interest rate of 8% per annum for 3 years. What is the total interest earned at the end of the period?

(A) Rs. 13,680
(B) Rs. 12,680
(C) Rs. 13,480
(D) Rs. 13,280

Q70. Which of the following statements is correct in the context of Accounting Standard - 18?

I. This standard deals with the reporting of related party relationships and transactions between a reporting enterprise and its related parties.
II. It states that the name of the related party and the nature of the related party relationship where control exists need not be disclosed if there are transactions between the related parties.
III. The AS is applicable to general-purpose financial statements and consolidated financial statements.

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

Q71. Calculate the modified duration of the bond if its duration is 6.5 years and a yield to maturity of 4.2%. Additionally, the expected market rate is 15 per cent.

(A) 5.65 years
(B) 6.24 years
(C) 5.89 years
(D) 6.33 years

Q72. Which of the following sections of the Income Tax Act deal with deduction in respect of interest on deposits in savings accounts?

(A) Section 80U
(B) Section 80TTA
(C) Section 80TTB
(D) Section 8ORRB

Q73. A company which has been successful in its operations, can issue shares at a premium. When shares are issued at higher than the face value of the shares, they are said to be issued at a premium. Premium amount cannot be utilised for:

(A) Buy back of shares.
(B) Issue of fully paid bonus shares.
(C) Paying premium on redemption of preference shares or debentures.
(D) Paying off dividends to shareholders

Q74.___________copies of the balance sheet and profit and loss account prepared by banking companies, together with auditors' report must be submitted to the Reserve Bank of India within months from the end of the period to which they refer.

(A) three, three
(B) five, three
(C) two, one
(D) three, one

Q75. In computing the total income of any person, any income falling within any of the clauses of Section of the IT Act is not included.

(A) 15
(B) 20
(C) 5
(D) 10

Q76. Which of the following will be entered in the credit side of the Profit and Loss Appropriation A/c ?

(A) Transfer to reserve/general reserve.
(B) Amount withdrawn from a general reserve or any other reserve.
(C) Transfer to dividend/interim dividend/proposed dividend.
(D) Surplus transferred to balance sheet.

Q77. Goods amounting to Rs. 820 sold to XYZ were correctly entered in the sales book but posted to the account as Rs. 280. What will be the rectification entry?

(A) Debit: XYZ A/c (Rs. 540). Credit: Sales A/c (Rs. 540)
(B) Debit: Sales A/c (Rs. 540). Credit: XYZ A/c (Rs. 540)
(C) Debit: Suspense A/c (Rs. 540). Credit: XYZ A/c (Rs. 540)
(D) Debit: XYZ A/c (Rs. 540). Credit: Suspense A/c (Rs. 540)

Q78. Which of the following statements is correct in the context of bond price volatility?

(A) Bond prices and YTM are positively related.
(B) The extent of change in the bond prices for a change in YTM measures the interest rate risk of a bond.
(C) Interest rate elasticity = $\frac{\text{Percentage change in yield to maturity for bond}}{\text{Percentage change in price for bond in period } t}$
(D) Interest rate elasticity is always a positive number.

Q79. Which of the following tax is not levied in India?

(A) CGST
(B) SGST
(C) Service tax
(D) UTGST

Q80. Which of the following statements with respect to IRR is correct?

I. If the IRR is less than the cost of capital, then the project, should not be undertaken, as going ahead with the project will have the result of reducing the shareholders' wealth.

II. For mutually exclusive investment opportunities, the IRR decision rule involves undertaking an investment that has the highest IRR, provided that the IRR is greater than the cost of capital.

III. IRR is more widely used than NPV.

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

Q81. Select the statements that correctly mention the features of a promissory note.

I. A promissory note is written by the debtor (buyer) promising the creditor (seller) to pay a specified sum after a specified period.

II. It can be in writing or can be an oral undertaking.

III. There are two parties in a promissory note.

IV. Acceptance by a creditor is necessary.

V. Noting is not necessary on dishonour.

(A) I and III only
(B) I, II, IV and V only
(C) I, III and V only
(D) II, III and V only

Q82. Which of the following is not a solvency ratio?

(A) Current Ratio
(B) Debt-equity ratio
(C) Stock turnover ratio
(D) Liquidity ratio

Q83. In the context of prior period items are incomes or expenses that arise in the accounts of the current year because of a mistake or omission in the preparation of the financial statement of one or more prior periods.

(A) AS - 6
(B) AS - 2
(C) AS - 7
(D) AS - 5

Q84. If a bond of face value Rs. 100, carrying a coupon interest rate of 8 per cent, is quoted in the market at Rs. 80, then what is the current yield of the bond?

(A) 12%
(B) 8%
(C) 10%
(D) 11%

Q85. Which of the following statements is incorrect in the context of AS-2, which deals with the determination of the values at which inventories are carried in the financial statements until the related revenues are recognised?

(A) LIFO method of inventory valuation is permitted in cases where goods are ordinarily interchangeable.
(B) This standard is not applied to work in progress arising under construction contracts.

(C) Techniques for measurement of the cost of inventories, such as the standard cost method or the retail method, are permitted to be used for convenience if the results approximate the actual cost.
(D) It states that inventories are to be valued at a lower of cost or net realisable value.

Q86. Which of the following options correctly states the formula for the calculation of COGS?
(A) Cost of Goods Sold = (opening stock + purchases + expenses) - (closing stock)
(B) Cost of Goods Sold = (closing stock + purchases + expenses) - (opening stock)
(C) Cost of Goods Sold = (opening stock + purchases) - (closing stock + expenses)
(D) Cost of Goods Sold = (closing stock + purchases) - (opening stock + expenses)

Q87. Calculate simple interest on the principal of Rs. 1,60,000 at the rate of 10% for 30 months.
(A) Rs. 44,000
(B) Rs. 40,000
(C) Rs. 35,000
(D) Rs. 36,000

Q88. ABC Company, a supplier of electronic components, has entered into a transaction with XYZ Corporation for the purchase of goods on credit. To formalize the credit arrangement and ensure payment at a later date, ABC Company decided to draw a Bill of Exchange. In this scenario, ABC Company is the
(A) Payee
(B) Drawer
(C) Drawee
(D) Endorser

Q89. In case of forfeiture of shares due to nonreceipt of payment by the shareholder, which of the following accounts will be credited?
(A) Share Capital A/c
(B) Calls in Arrears A/c
(C) Forfeited Shares A/c
(D) Both B and C

Q90. In a lease transaction, the is eligible for depreciation on the asset and the entire lease rentals are taxed as income of the
(A) lessee, lessor
(B) lessee, lessee
(C) lessor, lessor
(D) None of the above is correct

Q91. The income-tax paid by domestic and foreign companies on their income in India is known as:
(A) Personal Income Tax (PIT)
(B) Corporate Income Tax (CIT)
(C) Value Added Tax (VAT)
(D) Excise Duty

Q92. What is the fundamental idea behind ZeroBase Budgeting?
(A) Every expense must be justified from scratch as if starting from a "zero base," regardless of historical spending levels.
(B) Budgets are created by adjusting the previous year's budget with a small percentage increase or decrease.

(C) Focuses on allocating resources to activities that align with strategic objectives and generate the highest value.
(D) Eliminates the need for justification of recurring expenses, streamlining the budgeting process.

Q93. Which of the following is not a function of accounting?
(A) To ascertain the financial position of the business
(B) To satisfy the requirements of law
(C) To ascertain the results of the operations
(D) All of the above are functions of accounting.

Q94. In the balance sheet of a bank, gold appears under the head and silver is shown under the head
(A) Investment, Other Assets
(B) Other Assets, Investment
(C) Investment, Investment
(D) Other Assets, Other Assets

Q95. Section 206C of the Income-tax Act exempts certain buyers from the scope of TCS. Which of the following is exempted?
I. Public Sector Companies
II. State Government
III. Embassy
(A) II and III only
(B) III only
(C) I and II only
(D) I, II and III

Q96. What characterizes an Ordinary Annuity?
(A) Payments are required at the beginning of each period.
(B) Payments are required at the end of each period.
(C) Payments are made in a lump sum at the beginning of the annuity.
(D) Payments can be irregular and vary each period.

Q97. Which of the following is an objective of management accounting?
I. To record, analyse and classify all expenditures related to the cost of products and services.
II. It provides a system of evaluating the performance of the management itself.
III. It helps in communicating management plans to the various levels in the organisation.
IV. It helps in developing an effective system of feedback reports.
(A) II, III and IV only
(B) I only
(C) III and IV only
(D) III only

Q98. XYZ Corporation is considering two mutually exclusive projects, Project A and Project B, to expand its product line. Both projects have been thoroughly evaluated, and the Net Present Value (NPV) for each has been calculated. The NPVs for both projects are positive.
Project A has an NPV of Rs. 5,00,000, and Project B has an NPV of Rs. 4,50,000.
In this scenario:
(A) Project A should be chosen because it has a higher NPV.
(B) Project B should be chosen because it has a lower NPV.

(C) Either Project A or Project B can be selected since their NPVs are positive.
(D) Both projects should be undertaken simultaneously.

Q99. ABC Furniture Store, a retail company, reported the following financial information for the fiscal year:

- Sales: ₹15,00,000
- Sales Returns: ₹20,000
- Cost of Goods Sold (COGS): ₹6,00,000
- Selling and Administrative Expenses: ₹2,00,000
- Other Operating Expenses: ₹30,000

Calculate the Net Profit for ABC Furniture Store based on the provided data.
(A) ₹6,50,000
(B) ₹8,50,000
(C) ₹7,50,000
(D) ₹9,50,000

Q100. XYZ Corporation recently acquired a prime piece of real estate for its new corporate headquarters. The location is strategically important for the company's image and future growth. The management is thrilled with the acquisition, emphasizing the prestige and strategic value it adds to the business.
However, when the accountant records this transaction in the books of accounts, only the value of the land is considered, and its strategic importance is not accounted for. The recorded value of the land is Rs. 2 million. Which concept of accounting is applied here?
(A) Dual Aspect Concept
(B) Historical Cost Concept
(C) Money Measurement Concept
(D) Going Concern Concept

Answer Key

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

Hints & Solutions

Q1. Text Solution:

Matching concept: This concept explains that we have to match the income of a certain period with the expenses of that period only. The term matching refers to the close relationship that exists between certain expired costs and revenues realised as a result of incurring those costs. The justification of the matching concept arises from the accounting period concept.

Applications

1. All adjustments regarding prepaid expenses and outstanding expenses are made in the final accounts.
2. The deferred revenue expenditure concept arises due to this concept.

Q2. Text Solution:

(a) The auditors of Private Banks are appointed at the Annual General Meeting of the shareholders.

(b) The auditors of Public Sector Banks are appointed by their Board of Directors. (As per RBI guidelines)

Q3. Text Solution:

Depreciation

$\frac{\text{Cost of Asset} - \text{Residual Value}}{\text{Total Units of Production}} \times$ Units Produced in the First Year

Depreciation $= \frac{1{,}00{,}000 - 10{,}000}{50{,}000} \times 6{,}500 =$ Rs. 11,700

Q4. Text Solution:

The accumulated amount (A), at the end of one year will be:

Annually $= P(1 + r) =$ Annual compounding

Quarterly $= P\left(1 + \frac{r}{4}\right)^4 =$ Quarterly compounding

Monthly $= P\left(1 + \frac{r}{12}\right)^{12} =$ Monthly compounding

A company limited by shares may, if so authorised by its articles, issue preference shares which are liable to be redeemed within a period not exceeding twenty years from the date of their issue subject to such conditions as may be prescribed: Provided that a company may issue preference shares for a period exceeding twenty years but not exceeding thirty years for infrastructure projects, subject to the redemption of a minimum ten per cent ofsuch preference shares per year from the twenty first year onwards or earlier, on proportionate basis, at the option of the preferential shareholders.

Q6. Text Solution:

The concept of "risk-return tradeoff" implies a positive relationship between the level of risk taken and the potential for return. In simpler terms, investments with higher levels of risk generally offer the possibility of higher returns, while those with lower risk tend to have lower expected returns.

Q7. Text Solution:

Current Ratio $= \frac{1{,}50{,}000}{75{,}000} = 2:1$

Q8. Text Solution:

Required rate of return = Risk free return + Beta (Expected return on market portfolio - Risk free return)

Required rate of return $= 3 + 1.5(10 - 3)$

Required rate of return = 13.5%

Q9. Text Solution:

Incurs regular and recurring costs: This is NOT a feature of capital expenditure. Capital expenditures represent one-time, upfront costs associated with acquiring long-term assets. Unlike operating expenses, they are not typically regular or recurring. While maintenance and other costs might be associated with the upkeep of these assets, these are separate from the initial capital expenditure itself.

Q10. Text Solution:

Acceptance, Endorsements and Other Obligations are shown under Contingent Liabilities.
These represent the liabilities which the bank has assumed on behalf of its customers; the bank may accommodate its customer in the following ways: (i) by opening letters of credit, (ii) by accepting bills on behalf of the customers, (iii) by making endorsements on promissory notes prepared by the customers (iv) by issuing letters of guarantee to make payments if the customers fail to pay.
In all these cases, the bank is liable to third parties. Hence, it is a liability.

Q11. Text Solution:

	Financial Accounting	Cost Accounting
Purpose	primarily concerned with recording, summarizing, and reporting financial transactions to external stakeholders	provide detailed information about the costs associated with producing goods or providing services within an organization
Audience	investors, creditors, government agencies, and the general public.	Managers, executives, and department heads
Scope	provides a broader view of an organization's overall financial performance.	focuses on the detailed analysis of costs related to production, inventory management, and internal operations.
Regulatory Compliance	must adhere to established accounting standards and regulations.	not subject to external regulatory standards requirements.
Reporting Frequency	reports are typically prepared at regular intervals, such as quarterly and annually, in accordance with regulatory requirements.	reports can be generated as frequently as needed to support ongoing decision-making.

Q12. Text Solution:

Business Entity Concept: This concept emphasizes the separation of a business from its owner(s). By opening a separate bank account, maintaining distinct records, and using a unique business name and legal registration, Shikha is clearly treating her bakery as a distinct entity from herself. This separation is crucial for accurate financial reporting and legal liability protection.

Q13. Text Solution:

Intangible assets classification shall be given as: (a) Goodwill; (b) Brands/trademarks; (c) Computer software; (d) Mastheads and publishing titles; (e) Mining rights; (f) Copyrights and patents and other intellectual property rights, services and operating rights; (g) Recipes, formulae, models, designs and prototypes;

Q14. Text Solution:

In case of honour of bill on maturity:

Drawer's Books:
Debit: Cash/Bank A/c. Credit: Bills Receivable A/c
Drawee's or the Payer's Books:
Debit: Bills Payable A/c. Credit: Cash/Bank A/c.

Q15. Text Solution:

1. Operating activities: These are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. Operating activities consist of inflows and outflows of cash resulting from transactions that affect a firm's net profit or loss.
2. Investing activities: These include acquisition and disposal of long-term assets and other investments not included in cash equivalents. (Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.)
3. Financing activities: These include activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Q16. Text Solution:

Based on how demanding the standards should be, they are normally classified into the following three broad categories:

1. Basic standards
2. Ideal standards
3. Currently attainable standards

Q17. Text Solution:

Reserves and Surplus shall be classified as: (a) Capital Reserves; (b) Capital Redemption Reserve; (c) Securities Premium Reserve; (d) Debenture Redemption Reserve; (e) Revaluation Reserve; (f) Share Options Outstanding Account; (g) Other Reserves(specify the nature and purpose of each reserve and the amount in respect thereof); Surplusi.e., balance in Statement of Profit andLoss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves, etc.
A reserve specifically represented by earmarked investments shall be termed as a "fund".

Q18. Text Solution:

The key feature of simple interest is that it only considers the initial principal amount for calculating interest, making it a straightforward and easy-to-understand calculation compared to compound interest.

Q19. Text Solution:

Under SLM, the cost of the asset is allocated equally to each accounting period over its estimated useful life. This results in a constant depreciation expense reflected in the Profit & Loss statement.
This method is more relevant where the particular Asset is expected to give constant/consistent performance over an extended period of time over the useful life: This is also a feature of SLM. Assets like buildings or machinery often fall under this category, as their performance remains relatively stable throughout their usage.
This method is more relevant where the particular Asset is expected to give better performance in the initial periods of use as compared to the latter: This is not a feature of SLM. In fact, it contradicts the core principle of SLM, which assumes a constant or diminishing value over the asset's life. Assets that perform better initially, like some software or technology, might be better suited for different depreciation methods like declining balance or units-ofproduction methods.

Q20. Text Solution:

Interest Rate options are fundamentally of two types, the Cap and the Floor. A Cap is an interest rate option in which the buyer of the option, with the intention of locking himself to a ceiling in interest costs for his borrowing, reserves the right to receive the difference in interest rate on a notional principal in case the interest rate on the underlying borrowing goes higher than the ceiling he has chosen at pre-agreed periodic intervals for a given time maturity.

Salient Points of Interest Rate Options

1. Separation of liquidity from return exposure
2. Allows the option purchaser to acquire or shed exposure to the underlying asset without the necessity to purchase or sell the asset itself.
3. The option contract is also inherently leveraged in that the full face value of the underlying asset is controlled through the payment of a premium that represents a percentage of the face value.
4. The key element of the option contract is the ability of an option buyer to get asymmetric exposure to price fluctuations in the underlying asset.
5. The option contract is off-balance sheet to the parties entering the transaction.

Q21. Text Solution:

Category	Standard Asset	Sub-Standard Asset	Doubtful Asset	Loss Asset
Definitional requirement	A performing asset with just normal risk attached	Which has remained NPA for a period not exceeding twelve months	Which has remained in the substandard category for a period of 12 months	Where loss has been identified by the bank or internal or external auditors or the RBl inspection but the amount has not been written off wholly
Provisioning requirement	0.25% to 1% depending on type of advance	15% general provision on total outstanding. Additional provision as stipulated	Unsecured portion-100% Secured portion upto 1 year-25% 1 – 3 years-40%, More than 3 years-100%	100% of total outstanding.

Q22. Text Solution:

Cash equivalents are short-term high-liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of change in value.

An investment normally qualifies as a cash equivalent only when it has a short maturity of, say, 3 months or less from the date of acquisition.

Q23. Text Solution:

The payback period method is a simple investment appraisal technique used to evaluate the time it takes for an investment to recover its initial cost or generate cash inflows equal to the initial investment. It is expressed in terms of the number of years required to recoup the initial investment.

The shorter the payback period, the more favorable the investment is considered. It is a rule of thumb, and different industries or companies may have varying acceptable payback periods based on their risk tolerance and capital structure.

Limitations:

1. Ignores time value of money.

2. Does not consider cash flows beyond the payback period.
3. Ignores profitability measures.

Q24. Text Solution:

Suppliers Account: This account records the amount owed to suppliers for goods purchased on credit. Suppliers are creditors, and their account has a credit balance in the trial balance.

Q25. Text Solution:

- A bill of exchange is a written order requiring a party (drawee) to pay a specific sum of money to another party (payee) at a specified time.
- Until the drawee accepts the bill, it's merely a unilateral order and not a binding contract.
- Acceptance by the drawee transforms the bill into a legally enforceable contract between the drawee and the payee.
- Issuance by the drawer, endorsement by the payee, and presentation to the bank are all necessary steps for the bill to function, but they don't independently make it a legal document.

Q26. Text Solution:

Theorems for Bond Value:

1. When the required rate of return (market interest rate) is equal to the coupon rate, the value of the bond is equal to its par value.
2. When the required rate of return (k d) is greater than the coupon rate, the value of the bond is less than its par value.
3. **When the required rate of return is less than the coupon rate, the value of the bond is greater than its par value.**
4. **When the required rate of return** (kd) **is greater than the coupon rate, the discount on the bond declines as maturity approaches.**
5. When the required rate of return (kd) is less than the coupon rate, the premium on the bond declines as maturity approaches.
6. A bond price is inversely related to its yield to maturity.
7. **For a given difference between the YTM and coupon rate of the bonds, the longer the term to maturity, the greater will be the change in price with a change in YTM.** It is because, in the case of long maturity bonds, a change in YTM is cumulatively applied to the entire series of coupon payments and the principal payment is discounted at the new rate for the entire number of years to maturity.
8. Given the maturity, the change in bond price will be greater with a decrease in the bond's YTM than the change in bond price with an equal increase in the bond's YTM. That is, for equal-sized increases and decreases in the YTM, price movements are not symmetrical.
9. For any given change in YTM, the percentage price changes in the case of bonds of a high coupon rate will be smaller than in the case of bonds of a low coupon rate, with other things remaining the same.
10. A change in the YTM affects the bonds with a higher YTM more than it does bonds with a lower YTM.

Q27. Text Solution:

To be useful and helpful to users, financial statements must be:

- Relevant: relevant information makes a difference in a decision. It also helps users make predictions about past, present and future events (it has a predictive value). Relevant information helps users to confirm or correct prior expectations (it has a feedback value). It must also be available on time, that is before the decisions are made.

- Reliable: reliable information is verifiable (when independent auditors using the same methods get similar results), neutral (free from bias), and demonstrates representational faithfulness (what really happened or existed).
- Comparable: information must be measured and reported in a similar manner for different enterprises (allows financial statements to be compared between different companies).
- Consistent: the same accounting methods should be applied from period to period, and all changes in methods should be well explained and justified.

Q28. Text Solution:

Profit Volume Ratio $= \frac{\text{Contribution}}{\text{Sale price per unit}} \times 100$

$30 = \frac{\text{Contribution}}{50} \times 100$

Contribution =15

Break Even Point $= \frac{\text{Fixed Cost}}{\text{Contribution}}$

$\text{BEP} = \frac{60{,}000}{15} = 4000$

Q29. Text Solution:

Accounting Rate of Return $= \frac{\text{Average Profit After Tax}}{\text{Average Value of Investment}}$

Average Profit After Tax $= \frac{50{,}000+25{,}000+44{,}000+38{,}000+46{,}000}{5} = 40{,}600$

$\text{ARR} = \frac{40{,}600}{5{,}00{,}00/2} \times 100 = 16.24\%$

Q30. Text Solution:

In case the bill is discounted with the bank, following journal entry is passed in drawer's books:
Bank A/c Dr.
Discount A/c Dr.
To Bills Receivable A/c
No entry is passed in drawee's books.

Q31. Text Solution:

Money at Call and Short Notice: These are related to inter-bank transactions. Under this arrangement, money is borrowed by one bank from another bank, usually for one to fourteen days. Banks having surplus money advance such loans. Banks having a short supply of money contact the banks having surplus funds or vice versa for this purpose. Alternatively, they may approach the primary dealers in the money market to deploy their surplus funds or make good the deficit. The rate of interest on which money is supplied fluctuates every day and even within the day.

Q32. Text Solution:

Statement I is correct. The Passbook is a mirror image of the cash book in the sense that credit entries in the cash book are reflected as debit entries in the passbook and debit entries in the cash book are reflected as credit entries in the passbook.
Statement II is correct. Causes of difference between passbook and cashbook can be grouped under three headings: Errors, Entries which do not require change in Cashbook, and Entries which Require Change in Cashbook.

Statement III is incorrect. Amount Collected by Bank on Standing Instruction: The trader often issues some standing instructions, authorising his banker to collect on his behalf certain amounts due to him, such as interest, dividend, etc. On receipt of advice from the bank, the trader records the same on the debit side in the cash book.
Statement IV is incorrect. On dishonour of a cheque deposited by the trader, the bank will debit the customer's account.

Q33. Text Solution:

I. When one mistake nullifies the wrong effect of another, it is called a compensating error. These are two or more in number and balance each other. These are generally arithmetical errors. Both the errors will compensate each other, and there will be no effect on the agreement of the trial balance.

II. When an error is committed in recording a transaction with the wrong amount or posting to the wrong side of the account, it is called an 'Error of Commission'. These errors will result in disagreement of trial balance.

III. The error of complete omission does not affect the trial balance but a partial omission will result in the disagreement of trial balance.

IV. Error of Principle: These are errors arising from not observing the accounting principles correctly, e.g. wages paid for installation of machinery debited to wages account, purchase of fixed asset on credit recorded in purchase journal. These errors will not affect agreement of trial balance.

Q34. Text Solution:

Financial statements in relation to a company, include-

(i) a balance sheet as at the end of the financial year;

(ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

(iii) cash flow statement for the financial year;

(iv) a statement of changes in equity, if applicable; and

(v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause

(iv) Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Q35. Text Solution:

Types of Companies

(A)	Types of Companies	
(B)	(C)	
Based on Incorporation	Based on Ownership	Biability
1. Chartered Company	1. Private Company	1. Company Limited by Shares
2. Statutory Company	2. Public Company	2. Company Limited by Guarantee
3. Registered Company	3. Government Company	3. Company with Unlimited Liability
4. Foreign Company	4. Holding Company	4. Subsidiary Company

JAIIB-CAIIB

Q36. Text Solution:

Some of the ways to mitigate the agency problem in an organisation include:

1. Full transparency in all the operations
2. Placing restrictions on the capabilities of the agent/managers

3. Linking the compensation structure of the agent to the gains of the principal or providing a performance-based compensation structure.
4. Linking CEO compensation directly to stock price performance, etc.
5. Principal-agent relationships can be regulated by contracts.

Q37. Text Solution:

The exchange rate movements in the Indian forex market do not necessarily follow the international trend, particularly in the short run. The main reason for this is the restriction on the free flow of capital into or out of the country. Prior to the modified 'Liberalised Exchange Rate Management System' (LERMS), the Reserve Bank fixed the buying and selling rates and the market would remain within the ceiling and the floor, thus fixed by the Reserve Bank. However, at present, the forces of demand and supply in the local interbank market drive the exchange rate.

Q38. Text Solution:

In order to make the information more meaningful, various statistical and graphical techniques are used. These techniques make the presentation of the data in such a form which is more helpful to the management in decision making. Some such techniques used in analysis and presentation are linear programming, statistical quality control, charts relating to sales, earning, market share, investments, etc.

Q39. Text Solution:

Bills of exchange are meant for financing actual transactions in goods. Bills are drawn by seller (creditor) on debtor (buyer) to recover his dues. Thus, there is some consideration for drawing bills. In accommodation bills, there is no debtor-creditor relationship between the parties concerned.

Bills are drawn by one party on another to accommodate financial needs. When such a bill is drawn, the drawer discounts the bill with the bank and the money so raised, is either fully utilised by him or shared with the drawee. Before the due date, the drawer remits the amount utilised by him to the drawee and drawee then meets the bill, by making full payment to the bank. The parties can also draw separate bills on each other. In this case, each one discounts his own bill with the bank and utilises the amount. When the bills became due for payment, they meet their acceptance and settle their accounts. The accounting treatment of accommodation bills is similar to normal trade bills. One thing to remember here is that the discount loss must be shared by both the parties in the same proportion in which they share the proceeds of the bill.

Q40. Text Solution:

Every person who earns or gets an income in India is subject to income tax. Non-Resident Indians are also subject to Income tax on their income earned in India. The levy of income tax in India is governed by the Income Tax Act, 1961 and Income Tax Rules, 1962. The Income-tax Act, 1961 provides for levy, administration, collection and recovery of Income Tax. The finance budget, presented every year in the month of February, brings various amendments in Income-tax Act, 1961. Such amendments, if approved, become part of the income tax Act. This Act contains detailed provisions on important topics like computation of income, exemptions and deductions available, tax slabs, calculation of tax liability, formats of

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return forms applicable to different assessee, etc.

Q41. Text Solution:

I. The carrying amount of an item of PPE should be derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gain/loss on derecognition should be recognised in the Statement of Profit and Loss (unless AS 19 requires otherwise in a sale and leaseback) and should not be classified as revenue. Gain/loss on derecognition is the difference between net disposal proceeds, if any, and the carrying amount of the derecognised item of PPE.

II. Items of PPE retired from active use and held for disposal should be stated at the lower of their carrying amount and net realisable value. Any write-down should be recognised immediately in the Statement of Profit and Loss.

III. Examples of Directly Attributable Costs Costs of employee benefits arising directly from the construction or acquisition of the item of PPE - Costs of site preparation - Initial delivery and handling costs · Installation and assembly costs - Professional fees - Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment)

IV. If an item of PPE is acquired under deferred payment plan, the difference of cash price equivalent and total payment is recognised as interest over the period of credit unless such interest is capitalised as per AS 16, Borrowing Costs.

Q42. Text Solution:

Cash outflows due to investing activities represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Cash inflows from investing activities mean that there is a net decrease in such assets.

It includes cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment.

Q43. Text Solution:

Apart from debit vouchers and credit vouchers, there is also a category of 'composite vouchers'. These vouchers record the particulars of both debit and credit accounts. Most of the transactions covered by composite vouchers pertain to the internal accounts of the bank, i.e. non-customer accounts. Examples are bills received for collection, letters of credit issued by the branch, guarantees issued by the branch, etc. Such vouchers may also be prepared to rectify an error while debiting or crediting an account. For example, in case the current account is debited in the general ledger instead of the cash credit account by mistake, the composite voucher will show a debit to the cash credit account with a corresponding credit to the current account.

Q44. Text Solution:

In the case of banks, relatively lesser emphasis is placed on books of prime entry, such as cash books or journals.

Banks follow the accounting procedure of 'voucher posting' under which the vouchers are straightaway posted to the individual accounts in the subsidiary ledgers. At the end of each day, the debit and credit vouchers relating to a particular type of transaction (e.g. savings bank accounts, current accounts, demand loans, cash credit accounts, etc.) are entered on separate voucher summary sheets, and the total thereof is posted to the respective control account in the general ledger. **The general ledger trial balance is prepared every day.**

Transactions in a bank are of two types: cash and non-cash. In the latter case, also called 'transfer transactions', one or both of the accounts concerned may be of the customers or the internal accounts of the bank.

Q45. Text Solution:

The standard costing system involves the following components:

1. Determining the standard costs of materials, labour and overheads for the production line.
2. Decision on the pricing of the products and preparing the budget for sales and profit
3. Segregating, ascertaining and recording the actual costs and profits
4. Finding out the variances of various cost components
5. Analysing the variances and ascertaining the causes of variances
6. Initiating corrective actions in areas showing variance
7. Readjusting the cost standards, pricing, estimated volume and recasting the budget to make it more realistic.

Q46. Text Solution:

Nominal accounts are opened in the books to explain the nature of the transactions. For example, in a business, salary is paid to the employees, rent is paid to the property owner, wages are paid to the workers, and commission is paid to the salespersons then in fact, cash goes out of the business, that is real, but the salary, rent, wages, commission, etc. as such do not exist. These accounts are opened to explain how the cash has been spent. Nominal accounts include accounts of all expenses, losses, incomes and gains.

Cash A/c is a real account, while capital a/c is a personal account.

Q47. Text Solution:

Actionable Claims: Actionable claims did not constitute a service under Service Tax, and hence no tax was payable. Under GST, actionable claims are now included in the definition of supply of goods. Services provided from bills discounted to securitization are now taxed as B2C and B2B.

GST on banking Transaction fees in financial services such as credit card payments, fund transfers, ATM transactions, processing fees on loans etc. is increased to 18% tax bracket in the GST regime. The hike in the tax rate means individuals will have to pay more charges/fees for banking transactions. Bank branches provide services to each other, which is taxable under GST.

Thus, only Pension fund services are exempt from GST from the given options.

Q48. Text Solution:

Total variable cost = ₹75,000 + ₹40,000 + ₹ 15,000 = ₹1,30,000

Total fixed cost = 15% of 75,000 = ₹11,250

Cost of one tyre = $\frac{1,30,000+11,250}{50} = Rs. 2825$

Q49. Text Solution:

Transfer pricing refers to the pricing of goods and services within a multi-divisional organisation, particularly with regard to crossborder transactions. When different divisions of a multi-entity company are in charge of their own profits, they are also responsible for their own 'Return on Invested Capital'. Therefore, when divisions are required to transact with each other, a transfer price is used to determine the costs. For example, goods from the production division may be sold to the marketing division or goods from a parent company may be sold to a foreign subsidiary, with the choice of the transfer price affecting the division of the total profit among the parts of the company. This has led to the rise of transfer pricing regulations as governments seek to stem the flow of taxation revenue overseas, making the issue one of great importance for multinational corporations.

Q50. Text Solution:

As per Section 63 of the Companies Act 2013,

(1) A company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of (a) its free reserves, (b) the securities premium account, or (c) the capital redemption reserve account

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

(2) The bonus shares shall not be issued in lieu of dividends. Generally, a company utilises the capital redemption reserve, share premium and capital reserve first to issue bonus shares because these reserves are not free reserves and are available only for certain restricted purposes like the issue of bonus shares. If balances in these accounts are fully utilised, then only balances from the sinking fund, general reserve and profit and loss account are used. However, the company is free to decide as to which reserves are to be utilised in which order and to what extent for the purpose of issuing bonus shares.

'Disclosure and Investor's Protection Guidelines' 2000, issued by SEBI, include guidelines for the issue of bonus shares. One such guideline is: A company which announces its bonus issue after the approval of the board of directors and does not require shareholders' approval for capitalisation of profits or reserves for making bonus issue as per the Articles of Association shall implement the bonus issue within fifteen days from the date of such approval and shall not have the option of changing the decision.

Q51. Text Solution:

Under the Earning Price Ratio approach, Required rate of return = Expected earnings per share for the next year ÷ Present market price of share

Required rate of return = $\frac{10}{150} = 6.67\%$

Q52. Text Solution:

Accounting system followed by the lessee:

1. At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.
2. At the commencement date, a lessee shall measure the right-of-use asset at cost.
3. The cost of the right-of-use asset shall comprise (a) the amount of the initial measurement of the lease liability, (b) any lease payments made at or before the commencement date, less any lease incentives received, (c) any initial direct costs incurred by the lessee; and, (d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.
4. Initial measurement of the lease liability, mentioned in 3 (a) above: At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.
5. In the statement of profit and loss, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset.

Q53. Text Solution:

In case of the issue of the bill, the following journal entry is passed:

Drawer's Books:

Bills Receivable A/c Dr.

To Drawee's A/c

Drawee's or the Payer's Books:

Drawer's A/c Dr.

To Bills Payable A/c

Q54. Text Solution:

In case of honor of bill on maturity:

Drawer's Books:

Cash/Bank A/c Dr.

To Bills Receivable A/c

Drawee's or the Payer's Books:

Bills Payable A/c Dr.

To Cash/Bank A/c

Q55. Text Solution:

I. Accounting Standard - 19: The objective of this standard is to prescribe, for lessors and lessees, the appropriate accounting policies and disclosure in financial statements in relation to finance leases and operating leases. This accounting standard comes into effect in respect of all assets leased on or after 1st April, 2001 and is mandatory.

II. AS-19 does not apply to:

1. Lease agreements to explore for or use natural resources. 2. Licensing agreements for films, patents copyrights, etc. 3. Lease agreement to use land. 4. Agreements that are contracts for services that do not transfer the right to use the assets from one contracting party to the other.

III. From an accounting perspective, leases can be only of two types: Operating lease, and Finance lease.

IV. An operating lease is classified as a wet lease if the lessor provides the know-how and related services for operating the asset and takes care of its insurance, maintenance, etc. Otherwise, it is classified as a dry lease.

V. The situations under which a lease is normally classified as an operating lease are: 1. The lease term is substantially less than the economic life of the asset. 2. The lessee has the right to cancel the lease without paying any substantial penalties.

Q56. Text Solution:

1. A bill of exchange can be drawn upon any person including a bank.
2. A bill of exchange requires acceptance.
3. The acceptor of a bill of exchange is allowed three days of grace after the date of maturity of the bill.
4. A bill of exchange must be stamped.
5. Notice of dishonour is necessary.

Q57. Text Solution:

- Term Loan: A long-term loan from a bank or other financial institution with a fixed repayment schedule, typically ranging from 3 to 30 years. It's ideal for financing major expenses like equipment purchases, property acquisition, or business expansion.
- Commercial Paper: Short-term debt instruments issued by large corporations to raise cash for working capital needs.
- Factoring: Selling accounts receivable at a discount to a factoring company to receive immediate cash instead of waiting for customer payments. This is not a source of funds but rather a way to accelerate existing receivables.
- Forfaiting: Selling receivables with no recourse to the seller. Similar to factoring, it's not a source of funds but a way to manage receivables risk.

Q58. Text Solution:

The following journal entry is passed in case of forfeiture of share:
Share Capital A/c (Called-up amount) Dr.
To Calls in Arrears A/c (Amount unpaid)
To Forfeited Shares A/c (Amount paid-up)

Q59. Text Solution:

Year	Discounting Factors (@10%)	Cash inflow	Present Value
0	1	−1,00,000	−1,00,000
1	0.909	30,000	27,270
2	0.826	40,000	33,040
3	0.751	50,000	37,550
		NPV	-2140

Q60. Text Solution:

A lease is a contract under which one party agrees to allow use of its property to another party, for a specific period of time, on agreed payment terms. The party which owns the property is called Lessor and the party which gets right to use the asset, is called Lessee. The agreed payment for the right to use the property is called the lease rental.

Q61. Text Solution:

For the purpose of preparing the funds flow statement, the information contained in the two subsequent balance sheets is organized into two principal groups;
(i) sources of funds and (ii) applications of the funds.
Sources of funds are indicated by a decrease in assets and an increase in liabilities (including shareholder's equity) over the previous year, while applications of funds are associated with an increase in assets and a decrease in liabilities (including shareholder's equity) over the previous year.

Cash Flow Statement	Funds Flow Statement
1. Integral part of financial statements and is mandatory	1. Not a mandatory requirement and not a part of financial statements
2. Cash flows from operating, financing and investing activities to be shown separately	2. No such segregation is required.
3. Determines the cash position at the end of the accounting period	3. Determines the changes in working capital through a specified period.
4. Uses the cash system of accounting	4. Uses the accrual system of accounting
5. Helps in understanding the liquidity position of a business	5. Helps in assessing the long term financial strategy of a business

Indicative format of Funds Flow Statement:

SOURCES OF FUNDS	USES OF FUNDS
1. LONG TERM SOURCES:	1. LONG TERM USES:
a. Increase in equity	a. Decrease in equity
b. Increase in Reserves	b. Decrease in Reserves
c. Increase in long term borrowings	c. Decrease in long term borrowings
d. Decrease in Non-current assets	d. Increase in Non-current assets
Sub-total	Sub-total
2. SHORT TERM SOURCES:	2. SHORT TERM USES:
a. Increase in Short term borrowings	a. Decrease in Short term borrowings
b. Decrease in current assets	b. Increase in current assets
Sub-total	Sub-total
TOTAL	TOTAL

Q62. Text Solution:

There are two different modes of interest. They are

1. Fixed Rates
2. Floating Rates, also called variable rates.

Fixed Rate: In the fixed rate, the rate of interest is fixed. It will not change during the entire period of the loan. For example, if a home loan, taken at an interest rate of 12 per cent, is repayable in 10 years, the rate will remain the same for the entire tenure of 10 years even if the market rate increases or decreases. The fixed rate is normally higher than the floating rate, as it is not affected by market fluctuations.

Floating Rate: In the floating rate or variable rate, the rate of interest changes depending upon the market conditions. Under a floating rate, the interest rate is usually linked to a benchmark rate which could be the $MCLR/$ base rate of the bank or any other benchmark rate of the banking industry.

Q63. Text Solution:

The ROI (Return on Investment) is a concept that measures the profit that a firm earns on investing a unit of capital. 'Yield on capital' is another term employed to express the idea. It is desirable to ascertain this periodically. The profit being the net result of all operations, the return on capital expresses all efficiencies or inefficiencies of a business collectively and, thus, is a dependable measure for judging its overall efficiency or inefficiency. On this basis, there can be a comparison of the efficiency of one department with that of another, of one plant with that of another, of one company with that of another and of one industry with that of another.

Q64. Text Solution:

Balancing of an account means the process of equalising the two sides of an account by putting the difference on the side where the amount is short.

Where the debit side of an account exceeds the credit side, then the difference is put on the credit side, and the account is said to have a debit balance. This balance is brought down on the debit side while opening the account. Similarly, where the credit side of an account exceeds the debit side, the difference is put on the debit side, and the account is said to have a credit balance. This is also brought down on the credit side while opening the account.

If the debit side total is more, put the difference on the credit side amount column by writing the words 'By Balance c/d '. If the credit side total is more, put the difference on the debit side amount column by writing the words 'To Balance c/d'.

The debit balance of an account may represent either an asset or an expense. If such balance relates to a 'Personal Account' it reflects debtors; if it relates to a 'Real Account', it is a property, if it relates to a 'Nominal Account', it is an expense or loss.

Q65. Text Solution:

Convention of consistency: If a method is selected for recording and reporting purposes, it must be regularly followed in the future. Whenever it is necessary to change, the impact of such change must be disclosed separately. The consistency concept requires that once a company has decided on one method and has used it for some time, it should continue to follow the same method or procedure for all subsequent events of the same character unless it has a sound reason to do otherwise. If, for valid reasons, the company makes any departure from the method it has been following so far, then the effect of the change must be clearly stated in the financial statements in the year of change.

Q66. Text Solution:

Under absorption costing, in addition to the variable costs, the fixed overhead cost of ₹2,20,000 is also allocated on a pro-rata basis. Total cost under absorption costing $= 45 + \frac{2,20,000+75,000}{20,000} = \frac{2,95,000}{20,000} = 14.75 + 45 = 59.75$

Q67. Text Solution:

As a contract is spread over a long period of time, the contractor runs the risk of price escalation of input costs. Therefore, an escalation clause is normally included in the contracts to safeguard the contractor against any likely changes in the prices of material and labour. This clause provides that in case prices of materials, labour, etc., specified in the contract change beyond a specified limit over the prices prevailing at the time of signing the contract, during the execution of the contract, the contract price will be suitably adjusted. To avoid any dispute regarding the amount of adjustment, the terms of the contract specify the methodology for calculating such adjustment. This clause may be useful in safeguarding the interest of the customer and also in case of a decline in the prices of material, labour, etc., which is highly unlikely in the present inflationary environment.

Q68. Text Solution:

The journal entry if the bill is endorsed:

In Drawer's books:

Creditor's/ Endorsee's A/c Dr.

To Bills Receivable A/c

In Drawee's books:

No entry

Q69. Text Solution:

Simple Interest $= \frac{P \times r \times t}{100} = \frac{57{,}000 \times 8 \times 3}{100} = 13{,}680$

Q70. Text Solution:

Accounting Standard - 18:

The standard is mandatory for accounting periods commencing from 1st April, 2001. It deals with the reporting of related party relationships and transactions between a reporting enterprise and its related parties. The statement is applicable to general-purpose financial statements and consolidated financial statements. The statement applies to the related party relationship as described in the statement.

It states that the requirement of the statement shall not apply in circumstances where the providing such disclosures would conflict with the reporting enterprise's duties of confidentiality as specifically required in terms of a statute or by any regulatory or similar competent authority. It states that name of the related party and the nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

Q71. Text Solution:

Modified Duration $= \frac{\text{Duration}}{1+\text{FT}M} = \frac{6.5}{1+0.042} = 6.24$ years

Q72. Text Solution:

8ORRB: Deduction in respect of royalty on patents.

80TTA: Deduction in respect of interest on deposits in savings accounts.

80TTB: Deduction in respect of interest on deposits in the case of senior citizens.

80U: Deduction in case of a person with a disability.

Q73. Text Solution:

Premium amount can be utilised only for the following purposes:

(a) Buy back of shares. (b) Issue of fully paid bonus shares. (c) Writing off preliminary expenses and discount or commission on issue of shares or debentures. (d) Paying premium on redemption of preference shares or debentures.

Q74. Text Solution:

Three copies of the balance sheet and profit and loss account prepared under Section 29 (or Banking Regulation Act) together with auditors' report under Section 30 must be submitted to the Reserve Bank of India within three months from the end of the period to which they refer. However, it can be extended up to a further period of three months by RBI (Section 31).

Section 32 of the Act requires a banking company (but not other types of banks) to furnish three copies of its annual accounts and auditor's report thereon to the Registrar of Companies at the same time when it furnishes these documents to the RBI.

Q75. Text Solution:

In computing the total income of any person, any income falling within any of the clauses of Section 10 of the IT Act are not included. 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.

Q76. Text Solution:

The credit side of P&L Appropriation account shows the following items:

- Balance of surplus brought forward from previous year.
- Net Profit for the year.
- Amount withdrawn from general reserve or any other reserve.
- Income tax provision no longer required or excess provision written back.

The debit side of this account shows the following items:

- Transfer to reserve/general reserve.
- Debenture redemption account.
- Transfer to dividend/interim dividend/proposed dividend.
- Dividend Distribution Tax (If applicable).
- Income tax for previous year(s) not provided for.
- Surplus transferred to balance sheet.

Q77. Text Solution:

Since the amount was correct in sales A/C, rectification needs to be made in XYZ's A/C. Rectification entry: Debit: XYZ A/c (Rs. 540). Credit: Suspense A/c (Rs. 540)

Q78. Text Solution:

The sensitivity of the bond price to changes in the interest rates is called 'Bond Volatility'. Bond prices and YTM are inversely related. Therefore, instantaneous changes in market yields cause prices to change in the opposite direction. The extent of change in the bond prices for a change in YTM measures the interest rate risk of a bond. The interest rate risk is a function of the interest rate elasticity. Interest rate elasticity (IE) can be defined as: Percentage change in price for bond in period t Percentage change in yield to maturity for bond Interest rate elasticity is always a negative number, due to the inverse relationship between YTM and bond prices.

Q79. Text Solution:

Earlier, the list of indirect taxes imposed on taxpayers included service tax, sales tax, value added tax (VAT), central excise duty and customs duty, surcharges, and Octroi. However, the implementation of goods and services tax (GST) regime from 01 July 2017 has resulted in replacing all forms of indirect taxes, imposed on goods and services by the state and central governments. Other levies which were applicable on inter-State transportation of goods have also been done away in the GST regime.

Q80. Text Solution:

If the IRR is less than the cost of capital, then the project, should not be undertaken, as going ahead with the project will have the result of reducing the shareholders' wealth. For mutually exclusive investment opportunities, the IRR decision rule involves undertaking that investment that has the highest IRR, provided that the IRR is greater than the cost of capital. According to number of studies, IRR is more widely used than NPV. The main reason for this appears to be that people in business are more used to thinking in terms of rates of return than in terms of NPVs or surpluses.

Q81. Text Solution:

I. Correct: A promissory note is indeed written by the debtor (maker) promising the creditor (payee) to pay a specific sum at a specific time or on demand.

II. Incorrect: A promissory note must be in writing to be legally enforceable. Oral agreements are not sufficient.

III. Correct: There are always two parties involved in a promissory note: the maker and the payee.

IV. Incorrect: Acceptance by the creditor is not necessary for a promissory note to be valid. The maker's signature alone confirms the agreement

V. Correct: Noting is not necessary on dishonour of a promissory note. Its written nature serves as proof of debt.

Q82. Text Solution:

The stock turnover ratio is not a solvency ratio. It is a measure of how often a company's stock is bought and sold. It is calculated by dividing the average number of shares outstanding by the average daily trading volume.

The current ratio is a measure of a company's ability to meet its short-term obligations. It is calculated by dividing a company's current assets by its current liabilities.

The debt-to-equity ratio is a measure of a company's financial leverage. It is calculated by dividing a company's total liabilities by its total shareholders' equity.

The liquidity ratio is a measure of a company's ability to meet its short-term obligations with its most liquid assets. It is calculated by dividing a company's current assets minus its inventory by its current liabilities.

Q83. Text Solution:

Accounting Standard - 5 (Revised): This accounting standard is mandatory. It 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.

Q84. Text Solution:

Current yield of the bond is $= 8$ per cent $\times \frac{100}{80} = 10$ per cent

Q85. Text Solution:

The standard AS-2 deals with the determination of the values at which inventories are carried in the financial statements until the related revenues are recognised. The standard also deals with the determination of such value, including the ascertainment of the cost of inventories and any write-down thereof to net realisable value.

It states that inventories are to be valued at a lower of cost or net realisable value. Weighted average cost or first in first out (FIFO) methods is permitted in cases where goods are ordinarily interchangeable. The specific identification method is permitted only when goods are not ordinarily interchangeable. Techniques for measurement of the cost of inventories, such as the standard cost method or the retail method, are permitted to be used for convenience if the results approximate the actual cost.

This standard is not applied to: (a) Work in progress arising under construction contracts

(b) Work in progress of service providers

Shares, debentures, etc., held as stock-in-trade

(d) Inventories of livestock, agricultural and forest products, and mineral oils, ores and gases

Q86 Text Solution:

Cost of Goods Sold = (opening stock + purchases + expenses) - (closing stock)

COGS stands for "Cost of Goods Sold." It represents the direct costs associated with the production of goods or services that a company sells during a specific period. COGS includes the cost of raw materials, labor, and overhead costs directly related to the production process. It does not include indirect costs such as distribution expenses or sales force costs.

Q87. Text Solution:

$$SI = \frac{1{,}60{,}000 \times 10 \times 30}{12 \times 100} = 40{,}000$$

Q88. Text Solution:

1. Drawer: a person who draws the bill
2. Drawee: a person on whom the bill is drawn, and
3. Payee: a person who is going to receive money

In this scenario, **ABC Company is the drawer.**

Q89. Text Solution:

Forfeiture of Shares:

Share Capital A/c (Called-up amount) Dr.

To Calls in Arrears A/c (Amount unpaid)

To Forfeited Shares A/c (Amount paid-up)

Q90. Text Solution:

1. In a lease transaction, the lessor is eligible for depreciation on the asset, as he owns the assets. The lessee, therefore, will not be eligible to claim any depreciation. In sale and leaseback transactions, income Tax rules permit depreciation on the sold asset's depreciated value rather than the actual value of the sales transaction.
2. The entire lease rentals are taxed as income of the lessor.
3. The lessee is entitled to treat the rentals as expenses.

Q91. Text Solution:

Both domestic and foreign companies are included under this classification. An individual and a company are not taxed at the same rate. Individuals are taxed on the basis of tax slabs at different rates. The income-tax paid by domestic and foreign companies, on their income in India, is corporate income tax (CIT). It is at a specific rate as prescribed by the income tax act subject to the changes every year in the union budget. Different rates of tax are applicable to domestic and foreign companies.

Q92. Text Solution:

The concept of Zero base budgeting is a radically deferent concept of planning for future activities, compared to conventional budgeting. As the name suggests, the Zero base budgeting is budgeting from the beginning without any reference to any base. For example: A company, which has achieved a sales level of ₹ 50 Crore, may budget for a 10% increase in sales for the next year. In this process a base of ₹50 Crore has been used to form the budget. In Zero base budgeting, the process starts from the scratch and the potential of the company is judged without any constraint of the past data. It is based on the premise that every rupee of expenditure requires justification. This is a deviation from the traditional budgeting approach where an expenditure of previous year is automatically incorporated in new budget proposals and only the quantum of increment is subjected to discussion.

Q93. Text Solution:

- **To ascertain the financial position of the business:** Accounting provides insights into the company's assets, liabilities, and equity, giving a clear picture of its financial health.
- **To satisfy the requirements of law:** Companies have legal obligations to maintain accurate financial records and reporting. Accounting ensures compliance with these regulations.
- **To ascertain the results of the operations:** Analyzing income and expenses through accounting helps determine the profitability and efficiency of business operations.

Q94. Text Solution:

Gold and Silver: Gold appears under 'Investment' and silver appears under 'other assets'.

Q95. Text Solution:

Tax collected at source (TCS) represents the tax collected by a seller from the buyer at the time of sale. Section 206C of the Income-tax Act specifies the categories of goods and the percentage of TCS to be collected by the seller from the buyers. This Section also mentions the specific people or organizations who have been classified as sellers for tax collected at source. Any other seller of goods cannot collect tax at source from the buyers. The section exempts certain buyers from the scope of TCS. These include public sector companies, Central or State Governments, Embassies, etc.

Q96. Text Solution:

Ordinary Annuity: Payments are required at the end of each period. For an illustration, straight bonds usually make coupon payments at the end of every six months until the bond's maturity date.

Annuity Due: Payments are required at the beginning of each period. Rent is an illustration of annuity due. You are usually required to pay rent when you first move in at the beginning of the month, and then on the first of each month thereafter.

Q97. Text Solution:

1. Management accountancy involves developing financial accounting, cost accounting, tax accounting and information systems to meet the changing needs of management functions.
2. Management accountancy compiles, analyses, interprets and presents accounting and other data to make it understandable and usable to the management for planning.
3. Management accountancy helps in communicating management plans to the various levels in the organisation.
4. Management accountancy also helps in developing an effective system of feed-back reports. Such reports help in analysing the reasons and responsibilities for deviations so that appropriate corrective measures can be taken.
5. Management accounting also provides system of evaluating the performance of the management itself. This helps not only the owners and investors but also helps management in self-appraisal of their performance.

Q98. Text Solution:

Both projects have positive NPVs, indicating both are expected to generate profit. However, Project A has a higher NPV (Rs. 5,00,000) compared to Project B (Rs. 4,50,000). This means Project A is expected to bring in a greater net profit to the company.

Since the projects are mutually exclusive (meaning only one can be chosen), selecting the one with the highest NPV (Project A) maximizes the expected return on investment.

Q99. Text Solution:

Net Profit = Sales – Sales Return – COGS -
Selling and Administrative Expenses – Other Operating Expenses
Net Profit = ₹15,00,000 – ₹20,000 – ₹6,00,000 -
₹2,00,000 – ₹30,000
Net Profit = ₹6,50,000

Q100. Text Solution:

Money measurement concept: Every transaction that is recorded in books of accounts must be measured in terms of money. All the transactions are converted into a common form, which is money. For example, quarterly production, sales, wages, etc., all are converted in terms of money.

This concept implies that only transactions that can be expressed in monetary terms are recognized in the financial statements. Qualitative aspects, such as the strategic importance or prestige of an asset, are not considered in monetary measurement.

In the case study, although the real estate has strategic importance for the company, the accountant records only the monetary value of the land in adherence to the Money Measurement Concept.