DISCLOSURE OF ACCOUNTING POLICIES

AS 01

MCQ'S

1. Which of the following is NOT a major consideration in selection and application of accounting policies?
   a. Prudence
   b. Comparability
   c. Materiality
   d. Substance over form

2. Adoption of different accounting policies by different companies operating in the same industry affects which of the qualitative characteristics the most?
   a. Comparability
   b. Relevance
   c. Faithful representation
   d. Reliability

3. Which of the following statement would not be correct in relation to disclosures to be made in the financial statements after making any change in an accounting policy?
   a. Any change in an accounting policy which has a material effect shouldbe disclosed.
   b. The amount by which any item in the financial statements is affected by such change should be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
   c. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted.
   d. If a change is made in an accounting policy which has material effect on the financial statements for the current period and is reasonably expected to have a material effect in later periods, the fact of such change shouldbe appropriately disclosed only in the later periods i.e. year(s) next to the year in which the change is adopted.

4. Two major considerations that govern the selection of accounting policy
   a. Substance over form and Consistency
   b. Prudence and Materiality
   c. Prudence and Reliability
   d. Reliability and Consistency

5. Fundamental accounting assumption is?
   a. Materiality
   b. Business entity
   c. Going concern
   d. Dual aspect

6. It is essential to standardize the accounting principles and policies in order to ensure
    a. Transparency
    b. Consistency
    c. Comparability
    d. All of the three

7. AS 1 recognizes __________ Fundamental Accounting Assumptions?
    a. three
    b. four
    c. five
    d. none of the three

Answers:

1. (b)
2. (a)
3. (d)
4. (b)
5. (c)
6. (d)
7. (a)

VALUATION OF INVENTORIES

AS 02

MCQ'S

1. Which item of inventory is under the scope of AS 2?
   a. WIP arising under construction contracts.
   b. Raw materials
   c. Shares
   d. Debentures held as stock in trade.

2. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will beincorporated are expected to be
   a. sold at or above cost.
   b. sold above cost.
   c. sold less than cost.
   d. sold at market value (where market value is more than cost).

3. All of the following costs are excluded while computing value of inventoriesexcept?
   a. Selling and Distribution costs
   b. Allocated fixed production overheads based on normal capacity.
   c. Abnormal wastage
   d. Storage costs

4. Identify the statement(s) which is/are incorrect.
   a. Storage costs which is a necessary part of the production process isincluded in inventory valuation.
   b. Administration overheads are never included in inventory valuation.
   c. Full amount of variable production overheads incurred are included in inventory valuation.
   d. Selling and Distribution costs does not form part of stock valuation.

5. Pawan and-Vikas are partners in firm sharing profits and losses in the ratio of 4: 3.

Balance Sheet (Extract)

Liabilities	₹	Assets	₹
		Inventory	2,00,000

If the value of Inventory reflected in the above balance sheet is overvalued by 25%, find out the value of inventory to be shown in the new Balance Sheet.
   a. ₹ 1,60,000
   b. ₹ 2,00,000
   c. ₹ 2,40,000
   d. ₹ 2,50,000

6. The cost of inventories of items that are not ordinarily inter-changeable and goods or services produced and segregated for specific projects should be assigned by?
   a. Specific identification of their individual costs
   b. FIFO

   c. Weighted average cost formula
   d. (b) or (c)

7. In determining the cost of inventories in accordance with AS 2, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred. An example of such cost is?
   a. Fixed production overheads.
   b. Freight inwards.
   c. Selling and distribution costs.
   d. Costs of designing products for specific customers.

Answers:

1. (b)
2. (a)
3. (b)
4. (b)
5. (a)
6. (a)
7. (c)

CONTINGENCIES AND EVENTS OCCURRING AFTER BALANCE SHEET DATE

AS 04

MCQ'S

1. Cash amounting to ₹ 4 lakhs, stolen by the cashier in the month of March2023, was detected in April, 2023. The financial statements for the year ended 31st March, 2023 were approved by the Board of Directors on 15th May, 2023. As per Accounting Standards, this is _______ for the financial statements year ended on 31st March, 2023.
   a. An Adjusting event.
   b. Non-adjusting event.
   c. Contingency.
   d. Provision

2. As per Accounting Standards, events occurring after the balance sheet date are
   a. Only favourable events that occur between the balance sheet date andthe date when the financial statements are approved by the Board of directors.
   b. Only unfavourable events that occur between the balance sheet date and the date when the financial statements are approved by the Boardof directors.
   c. Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financialstatements are approved by the Board of directors.
   d. Those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financialstatements are not approved by the Board of directors.

3. AS 4 does not apply to
   a. Obligation under retirement benefit plans.
   b. Commitments arising from long term lease contracts.
   c. liabilities of life assurance and general insurance enterprises arising from policies issued.
   d. Both (a) & (b).

4. A Ltd. sold its building for ₹ 50 lakhs to B Ltd. and has also given the possession to B Ltd. The book value of the building is ₹ 30 lakhs. As on 31st March, 2023, the documentation and legal formalities are pending. For the financial year ended 31st March, 2023
   a. The company should record the sale.
   b. The company should recognise the profit of ₹ 20 lakhs in its profit andloss account.
   c. Both (a) and (b).
   d. The company should disclose the profit of ₹ 20 lakhs in notes toaccounts.

5. Which is adjusting event as per AS 4.
   a. Decline in market value of investments between the balance sheet date and the date on which the financial statements are approved
   b. Dividend declared after the balance sheet date but before the financial statements are approved for issue.

c. Filing of Bankruptcy by a major customer between the balance sheet date and the date on which the financial statements are approved
d. Loss from fire which took place between the balance sheet date and the date on which the financial statements are approved

Answers:

1. (a)
2. (c)
3. (d)
4. (c)
5. (c)

NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGES IN ACCOUNTING POLICIES

AS 05

MCQ'S

1. A change in the estimated life of the asset, which necessitates adjustment inthe depreciation is an example of
   a. Prior period item.
   b. Ordinary item.
   c. Extraordinary item.
   d. Change in accounting estimate.

2. Which of the following is considered as an extraordinary item as per AS 5?
   a. Write down or write-off of receivables, inventory and intangible assets.
   b. Gains and losses from sale or abandonment of equipment used in abusiness.
   c. Effects of a strike, including those against competitors and majorsuppliers.
   d. Flood damage from unusually heavy rain or a normally dryenvironment.

3. Which one of the following is an example of extraordinary item?
   a. The write down of inventories to their net realisable value
   b. Reversal of write down of inventories
   c. Government grants become refundable
   d. Reversal of provisions.

4. Extraordinary items are income or expenses
   a. That arise from events clearly distinct from the ordinary activities of the enterprise.
   b. That are not expected to recur frequently or regularly.
   c. Both (a) and (b).
   d. None of the three.

5. An audit stock verification during the year ended 31st March, 2021 revealed that opening stock of the year was understated by ₹ 5 lakhs due to wrong counting. While finalizing accounts, your opinion will be
   a. It is not a prior period item and no separate disclosure is required
   b. It should be treated as a prior period adjustment and should be separately disclosed in the current year's financial statement
   c. The adjustment of ₹ 5 lakhs in both opening stock of current year and profit brought forward from previous year should be made
   d. Both (b) and (c).

6. There was an omission of ₹ 15,000 purchases from last year books and this error is traced in current year. This will be called as
   a. Exceptional item
   b. Prior period item
   c. Extraordinary item
   d. Change in accounting estimates

7. Which of the following may not be considered as an extra-ordinary item?
    a. Attachment of property of the enterprise
    b. Losses sustained as a result of an earthquake
    c. Claims from policyholders arising from an earthquake for an insurance enterprise that insures against such risks
    d. Loss due to major fire in an important plant of the company

8. There was an omission of ₹ 32,000 sales in last year books and this error is traced in current year. This will be called as
    a. Exceptional item
    b. Prior period item
    c. Extraordinary Item
    d. Change in accounting estimates

9. Which of the following circumstances may not give rise to the separate disclosure of items of income and expense
    a. The write-down of inventories to net realizable value
    b. Legislative changes having retrospective application
    c. Litigation settlements
    d. Separation cost paid to CEO of the company

Answers:

1. (d)
2. (d)
3. (c)
4. (c)
5. (d)
6. (b)
7. (c)
8. (b)
9. (d)

CONSTRUCTION CONTRACT

AS 07

MCQ'S

The below information relates to Questions 1 – 3:
XY Ltd. agrees to construct a building on behalf of its client GH Ltd. on 1st April 2022. The expected completion time is 3 years. XY Ltd. incurred a cost of ₹ 30 lakh up to 31st March 2023. It is expected that additional costs of ₹ 90 lakh. Total contract value is ₹ 112 lakh. As at 31st March 2023, XY Ltd. has billed GH Ltd. for ₹ 42 lakh as per the agreement. Assume that the work is completed to the extent of 75% by the end of Year 2.

1. Revenue to be recognized by XY Ltd. for the year ended 31st March 2023 is
   a. ₹ 28 lakh
   b. ₹ 42 lakh
   c. ₹ 30 lakh
   d. ₹ 32 lakh

2. Total expense to be recognised in Year 1 is
   a. ₹ 30 lakh
   b. ₹ 120 lakh
   c. ₹ 38 lakh
   d. ₹ 36 lakh

3. Revenue to be recognised for year 2 is
   a. ₹ 84 lakh
   b. ₹ 42 lakh
   c. ₹ 56 lakh
   d. ₹ 28 lakh

4. LP Contractors undertakes a fixed price contract of ₹ 200 lakh. Transactions related to the contract include:
   Material purchased: ₹ 80 lakh Unused material: ₹ 30 lakh
   Labour charges: ₹ 60 lakh
   Machine used for 3 years for the contract. Original cost of the machine is ₹ 100lakh. Expected useful life is 15 years. Estimated future costs to be incurred to complete the contract: ₹ 80 lakh.Loss on contract to be recognised is:
   a. ₹ 40 lakh
   b. ₹ 10 lakh
   c. ₹ 90 lakh
   d. ₹ 50 lakh

5. Which of the following does not form a part of contract costs as defined in AS 7?
   a. Estimated warranty costs under the construction contract.
   b. Comprehensive insurance policy premium for all open construction contracts.
   c. General administration costs for which reimbursement is not specified in the contract.
   d. Research and development costs incurred at the instance of the contractee and billed to his account.

6. When fixed-price construction contracts require more than one accounting period for completion & contract costs can be reasonably estimated, revenue should be recognized
   a. At the completion of contract
   b. When title to the project is transferred to the buyer
   c. When cash is received from the buyer
   d. As per percentage of completion.

7. According to AS 7, "Construction Contracts," which of the following criteria must be met for a contract to be considered a construction contract?
   a. Involvement of physical construction only
   b. The contract should involve the construction of an asset
   c. The contract should be completed within a fiscal year
   d. The contract should be of significant value

8. How are fixed-price contracts recognized under AS 7?
   a. Using the percentage of completion method
   b. Using the completed contract method
   c. Using the installment method
   d. Using the cost recovery method

9. According to AS 7, which method is preferred for recognizing revenue and costs of long-term contracts?
   a. Percentage of completion method
   b. Completed contract method
   c. Installment method
   d. Cost recovery method

10. Under AS 7, when should an entity recognize contract revenue and expenses for a construction contract using the percentage of completion method?
    a. When the contract is completed
    b. When the contract is initiated
    c. Over the contract period based on the stage of completion
    d. When the costs are incurred

11. XYZ Ltd. has a construction contract where the outcome cannot be reliably measured. How should revenue be recognized for this contract according to AS 7?
    a. Recognize revenue only to the extent of contract costs incurred of which recovery is probable.
    b. Recognize revenue at the beginning of the contract
    c. Recognize revenue only upon completion of the contract
    d. Do not recognize revenue until the outcome is reliably measurable

12. What does AS 7 require regarding the disclosure of information about construction contracts in financial statements?
    a. Disclose only the total revenue and expenses from the contracts
    b. Disclose details of contracts and the basis of revenue recognition
    c. Disclose information only if the contract value exceeds a certain threshold
    d. Do not disclose information about construction contracts

13. In a construction contract, when should an expected loss be recognized according to AS 7?
    a. As soon as the loss becomes probable
    b. Only upon completion of the contract
    c. At the beginning of the contract
    d. When the contract value exceeds a certain threshold

14. According to AS 7, which costs should be included when determining the costs attributable to a contract?
    a. General and administrative costs
    b. Costs that are directly related to the specific contract
    c. Costs incurred before the contract date
    d. Costs incurred after the completion of the contract

Answers:

1. (a)
2. (d)
3. (c)
4. (b)
5. (c)
6. (d)
7. (b)
8. (a)
9. (a)
10. (c)
11. (a)
12. (b)
13. (a)
14. (b)

REVENUE RECOGNITION

AS 09

MCQ'S

1. Which of the conditions mentioned below must be met to recognize revenuefrom the sale of goods?
   i. the entity selling does not retain any continuing influence or controlover the goods;
   ii. when the goods are dispatched to the buyer;
   iii. revenue can be measured reliably;
   iv. the supplier is paid for the goods;
   v. it is reasonably certain that the buyer will pay for the goods;
   vi. the buyer has paid for the goods.
      a. (i), (ii) and (v)
      b. (ii), (iii) and (iv)
      c. (i), (iii) and (v)
      d. (i), (iv) and (v)

2. Consignment inventory is an arrangement whereby inventory is held by oneparty but owned by another party. Which of the following indicates that the inventory in question is a consignment inventory?
   a. Manufacturer cannot require the dealer to return the inventory
   b. Dealer has the right to return the inventory
   c. Manufacture is responsible for the pricing of goods and any changes inthe pricing can only be approved by the manufacturer.
   d. Manufacture is responsible for the holding the goods and any changesin the pricing can only be approved by the dealer

3. Which of the following transactions qualify as revenue for M/s AB Enterprises?
   a. Sales of ₹ 20 lakhs made under consignment sales.
   b. Sale of an old machine amounting ₹ 5 lakhs
   c. Services provided to the customer in the normal course of business. Sales recorded is ₹ 50,000.
   d. Sales of ₹ 25 lakhs made under consignment sales

4. The Accounting Club has 100 members who are required to pay an annual membership fee of ₹ 5,000 each. During the current year, all members havepaid the fee. However, 5 members have paid an amount of ₹ 10,000 each. Of these, 3 members paid the current year's fee and also the previous year's dues. Remaining 2 members have paid next years' fee of ₹ 5,000 in advance.
   Revenue from membership fee for the current year to be recognised will be:
   a. ₹ 5,25,000
   b. ₹ 5,10,000
   c. ₹ 5,00,000
   d. ₹ 5,15,000

5. FlixNet International offers a subscription fee model to allow the paid subscribers an annual viewing of movies, sports events and other content. It allows users to register for free and have access to limited content for onemonth without any charges. The customer has a right to cancel thesubscription within a month's time but is required to pay for 1 year subscription fee after the free period. XY has subscribed for free viewing on 1st March 2021. After 1 month, he has agreed to pay the annual membership & has paid ₹ 1,200 on 31st March2021 for subscription that is valid up to 31st of March 2022. Revenue that can be recognized by FlixNet for year ended 31st March 2022 is
   a. ₹ 100
   b. ₹ 1,200
   c. Nil
   d. ₹ 1,100

6. What aspect has special considerations for revenue recognition
   a. Revenue Arising from Government Grants and Other Similar Subsidies
   b. Revenue Arising from Construction Contracts
   c. Revenue Arising from Hire-Purchase, Lease Agreements
   d. All Of These

7. Goods worth ₹ 4,00,000 were sold on approval basis on 01st Dec, 2022 by ABC Ltd. The period of approval was 3 months after which they were to be considered as sold. Buyer sent approval for 75% goods up to 31st March, 2023 and no approval or disapproval received for the remaining goods till 31st March, 2023. For the year ended 31st March, 2023.
   a. Revenue should not be recognized at all
   b. Revenue should be recognized for only 75% of sales
   c. Revenue should be recognized for the total sales amounting ₹ 4,00,000 as the time period for rejecting the goods had expired
   d. Revenue should be recognized for only 25% of sales

8. Argentina Enterprises provides subscription-based services. According to AS 9, how should revenue be recognized for subscription services?
   a. At the beginning of the subscription period
   b. Over the subscription period
   c. At the end of the subscription period
   d. Only when subscribers renew their subscriptions

9. Unique Enterprises receives an order for goods to be shipped internationally on FOB basis. According to AS 9, when should revenue be recognized for international sales?
   a. At the time of receiving the order
   b. When the goods are shipped
   c. When the goods reach the international destination
   d. When payment is received

10. ABC Ltd. sold goods to a customer on credit. According to AS 9, when should revenue be recognized?
    a. At the time of delivery
    b. When payment is received
    c. When the significant risks & rewards / property in goods is transferred.
    d. When the customer places the order

Answers:

1. (c)
2. (c)
3. (c)
4. (c)
5. (b)
6. (d)
7. (c)
8. (b)
9. (b)
10. (c)

PROPERTY, PLANT & EQUIPMENT

AS 10

MCQ'S

1. As per AS 10 (Revised) 'Property, plant and equipment', which of the following costs is not included in the carrying amount of an item of PPE
   a. Costs of site preparation
   b. Costs of relocating
   c. Installation and assembly costs.
   d. initial delivery and handling costs

2. As per AS 10 (Revised) 'Property, Plant and Equipment', an enterprise holding investment properties should value Investment property
   a. as per fair value
   b. under discounted cash flow model.
   c. under cost model
   d. under cash flow model

3. A plot of land with carrying amount of ₹ 1,00,000 was revalued to ₹ 1,50,000at the end of Year 2. Subsequently, due to drop in market values, the land was determined to have a fair value of ₹ 1,30,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
   a. Initial upward valuation of ₹ 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of ₹ 20,000 debited to P/L.
   b. Initial upward valuation of ₹ 50,000 credited to P/L. Subsequent downward revaluation of ₹ 20,000 debited to P/L.
   c. Initial upward valuation of ₹ 50,000 credited to Revaluation Reserve. Subsequent downward revaluation of ₹ 20,000 debited to RevaluationReserve.
   d. Initial upward valuation of ₹ 50,000 debited to P/L. Subsequent downward revaluation of ₹ 20,000 credited to P/L.

4. A plot of land with carrying amount of ₹ 1,00,000 was revalued to ₹ 90,000 at the end of Year 2. Subsequently, due to increase in market values, the landwas determined to have a fair value of ₹ 1,05,000 at the end of Year 4. Assuming that the entity adopts Revaluation Model, what would be the accounting treatment of Revaluation?
   a. Initial downward valuation of ₹ 10,000 debited to Revaluation Reserve. Subsequent upward revaluation of ₹ 15,000 credited to P/L.
   b. Initial downward valuation of ₹ 10,000 debited to P/L. Subsequent upward revaluation of ₹ 15,000 credited to P/L.
   c. Initial downward valuation of ₹ 10,000 debited to P/L. Subsequent upward revaluation of ₹ 10,000 credited to P/L and ₹ 5,000 credited to Revaluation Reserve.
   d. Initial downward valuation of ₹ 10,000 credited to P/L. Subsequent upward revaluation of ₹ 10,000 debited to P/L and ₹ 5,000 debited to Revaluation Reserve.

5. On sale of an asset which was revalued upwards, what would be thetreatment of Revaluation Reserve?
   a. The Revaluation Reserve is credited to P/L since the profit on sale ofsuch asset is now realized.
   b. The Revaluation Reserve is credited to Retained Earnings as movement in reserves without impacting the P/L.
   c. No change in Revaluation Reserve since profit on sale of such asset isalready impacting the P/L.
   d. The Revaluation Reserve is reduced from the asset value to computeprofit or loss.

6. A machinery was purchased having an invoice price ₹ 1,18,000 (including GST ₹ 18,000) on 1 April 2021. The GST amount is available as input tax credit.The rate of depreciation is 10% on SLM basis. The depreciation for 2022 -23 would be
   a. ₹ 10,000.
   b. ₹ 11,800.
   c. ₹ 9,000.
   d. ₹ 10,500.

7. What does Accounting Standard 10 primarily deal with?
   a. Revenue Recognition
   b. Property, Plant, and Equipment
   c. Leases
   d. Contingent Liabilities

8. According to AS 10, how should the cost of property, plant, and equipment be measured initially?
   a. Historical Cost
   b. Fair Value
   c. Present Value
   d. Replacement Cost

9. Under AS 10, which of the following costs should be included in the initial measurement of property, plant, and equipment?
   a. Selling Costs
   b. General and Administrative Expenses
   c. Borrowing Costs
   d. Future Maintenance Costs

10. In what circumstances does AS 10 allow the revaluation of property, plant, and equipment?
    a. Only when required by tax regulations.
    b. When there is a significant change in fair value
    c. At the discretion of management
    d. Only during periods of inflation

11. A company purchases a building costing ₹ 25 Lakhs. It is estimated that the estimated life of the building will be 30 years but the company is thinking of selling the building after 20 years when the residual value of the building will be ₹ 25 lakhs. Depreciation will be

a. 1,25,000
b. 0
c. 2,50,000
d. None of the above

12. An entity wishes to accelerate its depreciation policy because of changes in the useful life of the asset. How should the change be dealt with?
    a. By retrospective restatement
    b. By retrospective application
    c. By prospective application
    d. By disclosure of an error

Answers:

1. (b)
2. (c)
3. (c)
4. (c)
5. (b)
6. (a)
7. (b)
8. (a)
9. (c)
10. (b)
11. (b)
12. (c)

THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

AS 11

MCQ'S

1. As per AS 11 assets and liabilities of non-integral foreign operations shouldbe converted at ___________rate.
   a. Opening
   b. Average
   c. Closing
   d. Transaction

2. The debit or credit balance of "Foreign Currency Monetary Item TranslationDifference Account"
   a. Is shown as "Miscellaneous Expenditure" in the Balance Sheet
   b. Is shown under "Reserves and Surplus" as a separate line item
   c. Is shown as "Other Non-current" in the Balance Sheet
   d. Is shown as "Current Assets" in the Balance Sheet

3. If asset of an integral foreign operation is carried at cost, cost anddepreciation of tangible fixed asset is translated at
   a. Average exchange rate
   b. Closing exchange rate
   c. Exchange rate at the date of purchase of asset
   d. Opening exchange rate

4. Which of the following can be classified as an integral foreign operation?
   a. Branch office serving as an extension of the head office in terms ofoperations
   b. Independent subsidiary of the parent company
   c. Branch office independent of the head office in terms of operationaldecisions
   d. None of the above

5. Which of the following items should be converted to closing rate for the purposes of financial reporting?
   a. Items of Property, Plant and Equipment
   b. Inventory
   c. Trade Payables, Trade Receivables and Foreign Currency Borrowings
   d. All of the above

6. What will be the treatment of the balance in the foreign currency translation reserve on disposal of the foreign operation?
   a. Transfer the balance in foreign currency translation reserve to reserves without impacting P/L
   b. Record the balance in foreign currency translation reserve as income or expense in P/L
   c. Foreign currency translation reserve will continue; no change will be made to the balance and it will continue to appear as such even after disposal of the foreign operation

d. Any method from the above can be adopted

7. As per AS 11 assets and liabilities of integral foreign operations should be converted at which rates?
    a. Opening Rate for all assets and liabilities (monetary and non-monetary)
    b. Closing Rate for all assets and liabilities (monetary and non-monetary)
    c. Record transactions at the spot rate, monetary items at closing rate and non-monetary items at the rate on which the transaction was executed.
    d. Average Rate for all assets and liabilities (monetary and non-monetary)

8. Which of the following statements is false?
    a. AS 11 should be applied in accounting for transactions in foreign currencies
    b. AS 11 deals with accounting for foreign currency transaction in the nature of forward exchange contracts
    c. AS 11 specifies the currency in which an enterprise should present its financial statements
    d. The principal issues in accounting for foreign currency transactions are to decide which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates

9. Average rate
    a. is the exchange rate at the balance sheet date
    b. is the mean of the exchange rates in force during a period
    c. is the ratio for exchange of two currencies
    d. is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

10. Closing rate
    a. is the exchange rate at the balance sheet date
    b. is the mean of the exchange rates in force during a period
    c. is the ratio for exchange of two currencies
    d. is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

11. Exchange rate
    a. is the exchange rate at the balance sheet date.
    b. is the mean of the exchange rates in force during a period.
    c. is the ratio for exchange of two currencies.
    d. is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

12. Currency other than the reporting currency of an enterprise
    a. Non-Reporting currency
    b. U.S. Dollars
    c. Foreign Currency
    d. Indian Rupees

13. Currency used in presenting the financial statements
    a. Reporting currency
    b. Non-Foreign Currency
    c. Official Currency

d. Indian Rupees

14. Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money
    a. Current items
    b. Non-monetary items
    c. Monetary items
    d. Forward Exchange Contract

15. Which of the following is a foreign currency transaction?
    i. an enterprise buys or sells goods or services whose price is denominated in a foreign currency.
    ii. an enterprise borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency.
    iii. an enterprise becomes a party to an unperformed forward exchange contract.
    a. only (iii)
    b. all
    c. only (i)
    d. only (ii)

16. Which of the following statements is false?
    a. At each balance sheet date, foreign currency monetary items should be reported using the closing rate.
    b. At each balance sheet date, non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction.
    c. At each balance sheet date, non-monetary items, which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined.
    d. At each balance sheet date, foreign currency monetary items should be reported using the average rate during the year.

Answers:

1. (c)
2. (b)
3. (c)
4. (a)
5. (c)
6. (b)
7. (c)
8. (c)
9. (b)
10. (a)
11. (c)
12. (c)
13. (a)
14. (c)
15. (b)
16. (d)

ACCOUNTING FOR GOVERNMENT GRANTS

AS 12

MCQ'S

1. To encourage industrial promotion, IDCI offers subsidy worth ₹ 50 lakhs to all new industries set up in the specified industrial areas. This grant is in the nature of promoter's contribution. How such subsidy should be accounted inthe books?
   a. Credit it to capital reserve
   b. Credit it as 'other income' in the profit and loss account in the year of commencement of commercial operations
   c. Both (a) and (b) are permitted
   d. Credit it to general reserve

2. Government grants that are receivable as compensation for expenses or losses incurred in a previous accounting period or for the purpose of giving immediate financial support to the enterprise with no further related costs, should be
   a. recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable as an ordinary item.
   b. recognised and disclosed in the Statement of Profit and Loss of the period in which the losses or expenses were incurred.
   c. recognised and disclosed in the Statement of Profit and Loss of the period in which they are receivable, as an extraordinary item if appropriate as per AS 5.
   d. disclosed in the Statement of Profit and Loss of the period in which theyare receivable, as an extraordinary item

3. Which of the following is an acceptable method of accounting presentation for a government grant relating to an asset?
   a. Credit the grant immediately to Income statement
   b. Show the grant as part of Capital Reserve
   c. Reduce the grant from the cost of the asset or show it separately as a deferred income on the Liability side of the Balance Sheet.
   d. Show the grant as part of general Reserve.

4. X Ltd. has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd has a policy to recognise the grant as a deductionfrom the cost of asset. The expected remaining useful life of machine is 10 years. Assume that there is no salvage value & the depreciation method is straight-line. The amount of annual depreciation to be charged as an expense in Profit and Loss Statement will be:
   a. ₹ 10 crore
   b. ₹ 6 crore
   c. ₹ 2 crore
   d. ₹ 8 crore

5. X Ltd has received a grant of ₹ 20 crore for purchase of a qualified machine costing ₹ 80 crore. X Ltd. has a policy to recognise the grant as deferred income. The expected remaining useful life of the machine is 10 years. Assume that there is no salvage value and the depreciation method is straight-line. The amount of other income to be to be recognised in Profit and Loss Statement will be:

a. ₹ 10 crore
b. ₹ 6 crore
c. ₹ 2 crore
d. ₹ 8 crore

6. Why can the receipt of government assistance by an entity be significant for the preparation of the financial statements?
    a. To find an appropriate method of accounting for the transfer of resources
    b. To give an indication of the extent to which the entity has benefited from such assistance
    c. To identify the conditions giving rise to the period over which the grant will be earned in order to determine costs and expenses
    d. Both a & b.

7. What is the accounting treatment of government grant refundable which was in the nature of promoters' contribution?
    a. Debited to Profit & Loss Account
    b. Added in the Cost of Fixed asset
    c. Reduced from Deferred Government Grant Account
    d. Reduced from Capital Reserve

8. A government grant that becomes refundable is treated as
    a. Ordinary item
    b. Prior Period Item
    c. Change in Accounting Policy
    d. Extra-Ordinary item

9. Entity A purchased a fixed asset of ₹ 160 Cr having useful life of 10 years. Government provided grant of ₹ 60 Cr. After 4 years, entity had to refund the grant of ₹ 20 Cr due to non-fulfilment of a condition. Kindly provide the amount of depreciation to be charged in year 5. Assume - Company follows SLM method of depreciation & grant amount is reduced from the gross block of fixed asset.
    a. ₹ 16 Cr
    b. ₹ 12 Cr
    c. ₹ 13.33 Cr
    d. ₹ 15 Cr

10. AS 12 "Accounting for Government Grants" is not applicable for following.
    a. Subsidy from Government
    b. Cash incentives from Government
    c. Government participation in the ownership of the company
    d. Duty Drawback from Government

11. Entity A received government grant of ₹ 500 Cr on 01.10.2022 for investment in capital assets having useful life of 10 years. As on 31.03.2023, no amount could be capitalized in the books as the assets were not ready for use. What amount should be credited to statement of Profit & Loss out of Deferred Government Grant account in FY 2022-23.
    a. ₹ 500 Cr
    b. Zero
    c. ₹ 50Cr
    d. ₹ 25 Cr

12. Entity X purchased a fixed asset of ₹ 160 Cr having useful life of 10 years. Government provided grant of ₹ 60 Cr. After 4 years, entity had to refund the grant of ₹ 20 Cr due to non-fulfilment of a condition. Kindly provide the amount of depreciation to be charged in year 5. Assume - Company follows SLM method of depreciation & grant amount is maintained separately under Deferred Grant account.
    a. ₹ 16 Cr
    b. ₹ 12 Cr
    c. ₹ 13.33 Cr
    d. ₹ 15 Cr

13. At what value government grant is recorded in books in case a non-monetary asset is given free of cost?
    a. Fair value
    b. Nominal Value
    c. Concessional rate
    d. Should not be recorded

Answers:

1. (a)
2. (c)
3. (c)
4. (b)
5. (c)
6. (d)
7. (d)
8. (d)
9. (c)
10. (c)
11. (b)
12. (a)
13. (b)

ACCOUNTING FOR INVESTMENTS

AS 13

MCQ'S

1. The cost of Right shares is
   a. added to the cost of investments.
   b. subtracted from the cost of investments.
   c. no treatment is required.
   d. added to cost of investments at market value.

2. Long term investments are carried at
   a. fair value.
   b. cost less 'other than temporary' decline.
   c. Cost and market value whichever is less.
   d. Cost and market value whichever is higher.

3. Current investments are carried at
   a. Fair value.
   b. cost.
   c. Cost and fair value, whichever is less.
   d. Cost and fair value, whichever is higher.

4. A Ltd. acquired 2,000 equity shares of Omega Ltd. on cum-right basis at ₹ 75 per share. Subsequently, omega Ltd. made a right issue of 1:1 at ₹ 60 per share, which was subscribed for by A. Total cost of investments at the year- end will be ₹
   a. 2,70,000.
   b. 1,50,000.
   c. 1,20,000.
   d. 1,70,000.

5. Cost of investment includes
   a. Purchase costs.
   b. Brokerage and Stamp duty paid.
   c. Both (a) and (b).
   d. none of the above.

6. AS 13 Accounting for Investments does not deal with ……………………
   a. Operating or finance leases
   b. Investments on retirement benefit plans
   c. Mutual funds
   d. All of Above

7. ……………………… is the amount obtainable from the sale of an investment in an open market, net of expenses necessarily to be incurred on or before disposal.

a. Investments
b. Fair value
c. Market value
d. Mutual Funds

8. As per AS 13, investments are classified as (1) current investment; (2) long term investment-
   a. Only 1
   b. Only 2
   c. Both 1 and 2
   d. None of above

9. If the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, then the sale proceeds till the carrying amount becomes equal to the market value is ……………………… to know cost of investment.
   a. Reduced
   b. Added
   c. No treatment
   d. reduced or added depends on the information

10. ………………………………… is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise.
    a. Shares
    b. Debentures
    c. Investment Property
    d. Govt. Securities

11. On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses, is recognised in the ……………………………
    a. Profit and loss statement
    b. Realisation Account
    c. Investment Account
    d. None of the above

12. Mr. X has purchased 10000 10% debentures on 01.12.2023 for ₹ 101 and also paid brokerage @ 2%. What is the cost of 10% debentures as per AS 13.
    a. ₹ 10,10,000
    b. ₹ 10,00,000
    c. ₹ 10,20,000
    d. ₹ 10,30,200

13. X Ltd has issued bonus shares in the ratio of 1:2. Mr Vipin has 500 shares which it has taken from market @ 135. How many bonus shares is issued by company and what is cost of bonus share to Mr. Vipin?
    a. 500, ₹ 135
    b. 250, ₹ 135
    c. 250, NIL
    d. 500, NIL

14. On 31.1.2023, Bonus was declared in the ratio of 1: 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 1.1.2023, Mr. KM has 1000 shares and sold bonus shares to a Broker, who charged 2% brokerage. Calculate Sale Proceeds of bonus shares.
    a. ₹ 88,200
    b. ₹ 90,000
    c. ₹ 44,100
    d. ₹ 45,000

15. Mr. X purchased 1000 equity shares of ₹ 10 each in PW Co. Ltd. for ₹ 75,000 inclusive of brokerage and stamp duty. He received Bonus shares in the ratio of 1:2. He sold bonus shares for ₹ 45,000. What is the profit on sale of bonus shares?
    a. ₹ 20,000
    b. ₹ 25,000
    c. ₹ 44,100
    d. ₹ 45,000

16. Miss Kalpana has purchased 6000 shares of MN Ltd. on 15.01.2023 and then on 23.03.2023 purchased another 7000 shares. On 30.06.2023 company has issued 8000 bonus shares to her. MN Ltd has issued right shares on 31.08.2023 in ratio of 3:7 which she subscribed to the maximum extent. Calculate total number of shares.
    a. 21,000
    b. 30,000
    c. 70,000
    d. 13,000

17. Dividends for the year ended 31.3.2023 at the rate of 20% were declared by X Ltd. and received by Sundari on 31.10.2023. Dividends for 5000 shares acquired by her on 20.6.2023 are to be adjusted against the cost of purchase. X Ltd. has also issued bonus and right shares. Miss Sundari has received 500 and 700 shares respectively. Initially she has 35000 shares of face value ₹ 10 each purchased at 20 per share. Directors of X Ltd. decided not to pay dividend on bonus and right shares. How much dividend received is to be transferred to P&L Account by Sundari?
    a. ₹ 70,000
    b. ₹ 1,40,000
    c. ₹ 80,000
    d. ₹ 1,60,000

18. Calculate profit on sale of Bonds. C has purchased 1000 bonds at ₹ 55,000. On 02.02.2023 he sold 200 bonds @ 99 each.
    a. ₹ 19,800
    b. ₹ 11,000
    c. ₹ 8,800
    d. None of the above

19. Mr. F has sold 400 debentures @ 98/- ex interest and has also paid brokerage @ 1%. Cost of debentures ₹ 39,697. Compute Profit or loss on sale of debentures.
    a. ₹ 890 Profit
    b. ₹ 890 Loss
    c. ₹ 889 Profit
    d. ₹ 889 Loss

20. As per AS 13, investments are reclassified from current to long term, transfers are made at lower of cost and ……………………… on the date of transfer.
    a. Carrying amount
    b. Fair Value
    c. Face Value
    d. None of the Above

21. Puvi Nuvi Ltd. has invested in various types of investments?

Particular	Cost (₹)	Market Value (₹)
Shares	2,10,000	2,25,000
Bond	90,000	88,000
Gold	78,000	72,000

Calculate value of investment at end of year as on 31.03.2024 assuming current investments.
    a. ₹ 3,85,000
    b. ₹ 3,70,000
    c. ₹ 3,78,000
    d. ₹ 3,93,000

22. Calculate profit on sale of 500 shares if Mr. Tara has earlier purchased 1000 shares @ 120/- each and paid 1% brokerage and 0.50% Stamp duty on purchase. He also received bonus shares in ratio of 1:2. Sales proceeds of shares are ₹ 48,100.
    a. ₹ 7,500
    b. ₹ 7,600
    c. ₹ 7,700
    d. ₹ 7,800

23. If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the ………………………
    a. Profit and Loss Account
    b. Realisation Account
    c. Investment Account
    d. None of the above

24. Any reduction to fair value is debited to profit and loss account, however, if fair value of investment is increased subsequently, the increase in value of current investment up to the cost of investment is credited to the ……………………….. (and excess portion, if any, is ignored).
    a. Profit and Loss Account
    b. Realisation Account
    c. Investment Account
    d. None of the above

25. Decide and state on the amount of transfer, based on the following information:
    Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 15 lakhs but had been written down to ₹ 12 lakhs to recognise other than temporary decline as per AS 13.
    a. ₹ 18 Lakhs
    b. ₹ 12 Lakhs
    c. ₹ 15 Lakhs
    d. None of Above

Answers:

1. (a)
2. (b)
3. (c)
4. (a)
5. (c)
6. (d)
7. (c)
8. (c)
9. (a)
10. (c)
11. (a)
12. (d)

Explanation:

Cost Value (10000 X ₹ 101)	₹ 10,10,000
Add:- Brokerage (2% of ₹ 10,10,000)	₹ 20,200
Cost of 10% debentures purchased on 1.12.2023	₹ 10,30,200

13. (c)
14. (c)

Explanation:

Sale proceeds of equity shares (bonus) sold on 31st March, 2023 = (500 X ₹ 90) – (2% of ₹ 45,000) = ₹ 44,100.

15. (a)

Explanation:

Profit on sale of bonus shares = Sales proceeds – Average cost
Sales proceeds = ₹ 45,000
Average cost = (500/1500) X ₹ 75,000 = ₹ 25,000
Profit = ₹ 45,000 – ₹ 25,000 = ₹ 20,000.

16. (b)

Explanation:

Right shares = [(6,000 +7,000 +8,000)/7] X 3 = 9,000 shares
Total No. of shares = 21,000 + 9,000 = 30,000

17. (a)

Explanation:

Dividend received = 35,000 at the beginning × 10 × 20% = ₹ 70,000

18. (c)

Explanation:

Cost of bonds = (55,000/ 1,000) x 200 = 11,000
Sale proceeds = 200 X ₹ 99 = 19,800
Profit element = ₹ 8,800

19. (d)

Explanation:

Sales price of debentures (400 x 98)	39,200
Less: Brokerage @ 1%	(392)
	38,808
Less: Cost of Debentures	(39,697)
Loss on sale	889

20. (b)
21. (b)

Explanation:

Particulars	Cost (₹)	Market Value (₹)	Lower of Cost or Market Value (₹)
Shares	2,10,000	2,25,000	2,10,000
Bond	90,000	88,000	88,000
Gold	78,000	72,000	72,000
			3,70,000

22. (a)

Explanation:

Cost of equity shares purchased = (1,000 X 120) + (1% of 1,20,000) + (½% of 1,20,000) = ₹ 1,21,800
Profit on sale of bonus shares = Sale proceeds – Average cost
Sale proceeds = ₹ 48,100
Average cost = ₹ (1,21,800 /1,500) x 500 = ₹ 40,600
Profit = ₹ 48,100 – ₹ 40,600 = ₹ 7,500.

23. (a)
24. (a)
25. (b)

BORROWING COSTS

AS 16

MCQ'S

1. As per AS 16, all the following are qualifying assets except
   a. Manufacturing plants and Power generation facilities
   b. Inventories that require substantial period of time
   c. Assets those are ready for sale.
   d. None of the above

2. Which of the following statement is correct:
   a. Entire exchange gain is reduced from the cost of the Qualifying asset.
   b. Entire exchange loss is added to the cost of a Qualifying asset.
   c. No adjustment is done for the exchange loss while computing cost of Qualifying asset.
   d. None of the above

3. Capitalisation rate considers:
   a. Borrowing costs on general borrowings only.
   b. Borrowing costs on general and specific borrowings both.
   c. Borrowing costs on specific borrowings only
   d. None of the above

4. If the amount eligible for capitalisation in case of inventory as per AS 16 is ₹ 12,000 and cost of inventory is ₹ 40,000 and its net realizable value is ₹ 45,000; What amount can be capitalised as a part of inventory cost.
   a. ₹ 12,000.
   b. ₹ 5,000.
   c. ₹ 7,000.
   d. ₹ 10,000.

5. X Ltd is commencing a new construction project, which is to be financed by borrowing. The key dates are as follows:
   a. 15th May, 2023: Loan interest relating to the project starts to beincurred
   b. 2nd June, 2023: Technical site planning commences
   c. 19th June, 2023: Expenditure on the project started to be incurred
   d. 18th July, 2023: Construction work commences

   Identify the commencement date for capitalisation under AS 16.
   a. 15th May, 2023
   b. 19th June, 2023
   c. 18th July, 2023
   d. 2nd June, 2023

6. What is the primary objective of Accounting Standard 16 (AS 16) - Borrowing Costs?
    a. To define the accounting treatment for interest income
    b. To prescribe the accounting treatment for borrowing costs
    c. To regulate the issuance of bonds
    d. To provide guidelines for lease accounting

7. Under AS 16, which of the following borrowing costs should be capitalized?
    a. All borrowing costs
    b. Only borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets
    c. Only borrowing costs incurred for short-term loans
    d. Borrowing costs incurred for any purpose

8. Under AS 16, what is the treatment of borrowing costs that do not qualify for capitalization?
    a. They should be expensed in the period they are incurred
    b. They should be capitalized in the subsequent period
    c. They should be amortized over an extended period
    d. They should be disclosed in the financial statements

9. A qualifying being constructed in a factory since 1.4.21 is completed on 28.2.22 Interest on loan taken for the asset for the entire year is 1,20,000. What will be the completion date and capitalisation amount for the asset.
    a. 28.2.22 ₹ 1,20,000
    b. 28.2.22 ₹ 1,10,000
    c. 31.3.22 ₹ 1,20,000
    d. 31.3.22 ₹ 1,10,000

10. Following will not be considered as borrowing cost.
    a. amortisation of discounts or premiums relating to borrowings
    b. finance charges in respect of assets acquired under finance leases or under other similar arrangements
    c. exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs
    d. Interest and commitment charges on bank borrowings on non-qualifying assets

11. What is the correct treatment of income from temporary investment from borrowed fund pending expenditure on qualifying asset?
    a. Income is deducted from borrowing cost.
    b. Income is credited to P&L account.
    c. Income is deducted from PPE.
    d. Income is deducted from borrowing amount.

12. Borrowing cost of a qualifying asset does not include?
    a. Finance charges in respect of assets acquired under finance lease
    b. Exchange differences arising from foreign currency borrowing
    c. Interest charges on bank borrowing
    d. Loss on sale of investment

Answers:

1. (c)
2. (c)
3. (a)
4. (b)
5. (b)
6. (b)
7. (b)
8. (a)
9. (b)
10. (d)
11. (a)
12. (d)

SEGMENT REPORTING

AS 17

MCQ'S

1. As per AS 17, reportable segments are those whose total revenue from externalsales and inter-segment sales is
   a. 10% or more of the total revenue of all segments
   b. 10% or more of the total revenue of all external segments
   c. 12% or more of the total revenue of all segments
   d. 12% or more of the total revenue of all external segments

2. Which of the following statements is correct?
   a. Management has a discretion to include a segment as a reportablesegment even if it passes the 10% materiality test.
   b. Management has a discretion to include any segment as a reportablesegment if it fails the 12% materiality test.
   c. It is mandatory for the management to include the segment as areportable segment if it passes the 10% materiality test.
   d. It is not mandatory for the management to include the segment as areportable segment if it passes the 10% materiality test.

3. Which of the following statements is correct?
   a. The overall test of 75% considers only external revenue to compute the threshold limit.
   b. The overall test of 75% considers only internal revenue to compute the threshold limit.
   c. The overall test of 75% considers both internal and external revenue to compute the threshold limit.
   d. It is management choice whether they want to include both externaland internal revenue for computing threshold limit.

4. Which of the following statements is correct?
   a. The 10% test computed on the basis of revenue, considers both internaland external revenue to compute the threshold limit.
   b. The 10% test computed on the basis of revenue, considers only external revenue to compute the threshold limit.
   c. The 10% test computed on the basis of revenue, considers only internalrevenue to compute the threshold limit.
   d. It is management choice whether they want to include both externaland internal revenue for computing threshold limit.

5. Which of the following statements is correct?
   a. In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or netloss respectively of all segments taken together becomes reportable segment.
   b. In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit (after netting the losses) of all segments taken together becomes reportable segment.

c. In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is higher in absolute figures) of all segments taken together becomes reportable segment.
d. In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is lower in absolute figures) of all segments taken together becomes reportable segment.

6. Under AS 17, segments must be reported separately if the reported revenues (internal and external) are more than __________ of the combined revenues of all the segments.
   a. 10%
   b. 15%
   c. 20%
   d. 25%

7. Following is not included in Segment Expense.
   a. Income tax expense.
   b. The expense resulting from the operating activities of a segment that is directly attributable to the segment.
   c. The relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment.
   d. Expense relating to transactions with other segments of the enterprise.

8. Following is not included in Segment Revenue.
   a. External Revenue.
   b. Inter Segment revenue.
   c. The relevant portion of enterprise revenue that can be allocated on a reasonable basis to the segment.
   d. Extraordinary Item.

Answers:

1. (a)
2. (c)
3. (a)
4. (a)
5. (c)
6. (a)
7. (a)
8. (d)

RELATED PARTY DISCLOSURES

AS 18

MCQ'S

1. According to AS-18 Related Party Disclosures, which ONE of the following isnot a related party of Skyline Limited?
    a. A shareholder of Skyline Limited owning 30% of the ordinary sharecapital
    b. An entity providing banking facilities to Skyline Limited in the normalcourse of business
    c. An associate of Skyline Limited
    d. Key management personnel of Skyline Limited

2. Are the following statements in relation to related parties true or false,according to AS-18 Related Party Disclosures?
    A. A party is related to another entity that it is jointly controlled by.
    B. A party is related to another entity that it controls.

	Statement (A)	Statement (B)
a.	False	False
b.	False	True
c.	True	False
d.	True	True

3. Which of the following is <u>not</u> a related party as envisaged by AS-18 RelatedParty Disclosures?
    a. A director of the entity
    b. The parent company of the entity
    c. A shareholder of the entity that holds 1% stake in the entity
    d. The spouse of the managing director of the entity

4. According to AS-18 Related Party Disclosures, related party transaction is a transfer of resources or obligations between related parties – provided a priceis charged for such transfer.
    a. True
    b. False

5. According to AS-18 Related Party Disclosures, parties are considered to be related, if and only if at the end of the reporting period - one party has theability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.
    a. True
    b. False

6. Related party disclosures are primarily intended to
    a. Ensure a company's financial statements comply with tax regulations
    b. Highlight potential conflicts of interest and related-party transactions
    c. Minimize external scrutiny of a company's operations

d. Facilitate goodwill among different business entities

7. A director of a company purchases goods from that company for personal use. How should this transaction be disclosed in financial statements?
    a. No disclosure required
    b. Disclose only if the transaction value exceeds a certain threshold
    c. Disclose as a related party transaction
    d. Disclose in the footnotes if the director owns more than 10% of the company's shares

8. What is the primary objective of disclosing related party transactions in financial statements?
    a. To demonstrate the company's profitability
    b. To comply with legal requirements
    c. To enhance transparency and avoid potential conflicts of interest
    d. To increase the company's market value

9. Which of the following is an example of a related party transaction?
    a. Sale of goods to an unrelated third-party customer
    b. Purchase of inventory from an independent supplier
    c. Loan provided to a subsidiary company
    d. Salary payment to regular employees

10. Related party disclosures in financial statements typically include information about
    a. Nature of relationships and transactions
    b. Names of related parties
    c. Amounts of transactions and outstanding balances
    d. All of the above

11. According to accounting standards, who are considered related parties?
    a. Entities under common control
    b. Individuals having significant influence over the company
    c. Both a and b
    d. None of the above

12. A company rents office space from its major shareholder. How should this transaction be disclosed?
    a. As a related party transaction
    b. Only if the rent exceeds a certain percentage of total expenses
    c. Disclose the nature of the transaction but not the amount
    d. No disclosure required

13. Which of the following may be treated as Related party as per AS 18?
    a. A Limited & B Limited only because Mr. X is a common director in both the company.
    b. A Limited & B Limited are totally independent company, however, majority of the Board of Directors of both the companies are same.
    c. Mr. S & A Limited only because Mr. S purchases majority of the products of A Limited.
    d. ABC Bank & N Limited because all borrowings of N Limited is financed by ABC Bank.

Answers:

1. (b)
2. (d)
3. (c)
4. (b)
5. (b)
6. (b)
7. (c)
8. (c)
9. (c)
10. (d)
11. (c)
12. (a)
13. (b)

LEASES

AS 19

MCQ'S

1. A Ltd. sold machinery having WDV of ₹ 40 lakhs to B Ltd. for ₹ 50 lakhs (Fair value ₹ 50 lakhs) and same machinery was leased back by B Ltd. to A Ltd. The lease back is in nature of operating lease. The treatment will be
   a. A Ltd. should amortise the profit of ₹ 10 lakhs over lease term.
   b. A Ltd. should recognise the profit of ₹ 10 lakhs immediately.
   c. A Ltd. should defer the profit of ₹ 10 lakhs.
   d. B Ltd. should recognise the profit of ₹ 10 lakhs immediately.

2. In case of an operating lease – identify which statement is correct:
   a. The lessor continues to show the leased asset in its books of accounts.
   b. The lessor de-recognises the asset from its Balance Sheet.
   c. The lessor discontinues to claim depreciation in its books.
   d. The lessee recognises the asset in its Balance Sheet.

3. In case of finance lease, if the asset is returned back to the lessor at the end ofthe lease term - the lessee always claims depreciation based on which of the following:
   a. Useful life.
   b. Lease term.
   c. Useful life or lease term whichever is less.
   d. Useful life or lease term whichever is higher.

4. AS 19 lays down 5 deterministic conditions to classify the lease as a financelease. To classify the lease as an operating lease – which statement is correct?
   a. Any 1 condition fails.
   b. Majority of the 5 conditions fail.
   c. All 5 conditions fail.
   d. Any 2 conditions fails.

5. The basis of classification of a lease is:
   a. Control Test.
   b. Risk and reward Test.
   c. Both control test and risk and reward test.
   d. Only reward Test

6. Which of the following is the primary criterion used to classify a lease under AS 19?
   a. Ownership of the asset
   b. Length of the lease term
   c. Transfer of risks and rewards
   d. Maintenance responsibilities

7. According to AS 19, a lease that transfers substantially all the risks and rewards incidental to ownership is classified as
    a. Finance Lease
    b. Operating Lease
    c. Sales-Type Lease
    d. Direct Financing Lease

8. What is the recognition criteria for a finance lease under AS 19 by the lessee at the commencement of the lease term?
    a. Recognize the lower of fair value of the leased asset or present value of minimum lease payments as an asset and a liability.
    b. Recognize only the fair value of the leased asset as an asset.
    c. Recognize the present value of minimum lease payments as an expense.
    d. Do not recognize anything until the lease term ends.

9. Which of the following statements regarding an operating lease, as per AS 19, is true?
    a. It is capitalized on the lessee's balance sheet.
    b. It usually involves transferring ownership of the asset at the end of the lease term.
    c. It includes finance charges.
    d. It is expensed over the lease term.

10. In case of a finance lease, which statement regarding the lessee's profit and loss account is correct under AS 19?
    a. A portion of the total lease payment is recognized as interest expense, and the rest is recorded as depreciation.
    b. Total lease payment is recognized as interest expense.
    c. Total lease payment is recognized as depreciation.
    d. No expense is recorded until the lease term ends.

11. As per AS 19, what is the basis for recognizing lease payments for an operating lease?
    a. Ratio of benefit obtained and if not available then Straight-line basis.
    b. Reducing balance method
    c. Annuity method
    d. No specific basis is required for recognition.

12. Which financial statement should disclose the information about lease liabilities and assets recognized under AS 19?
    a. Income Statement
    b. Statement of Changes in Equity
    c. Balance Sheet
    d. Cash Flow Statement

13. Under AS 19, what happens if a lease agreement includes an option for the lessee to purchase the asset at a price significantly below its fair market value?
    a. It qualifies as a finance lease.
    b. It is recognized as an operating lease.
    c. It has no impact on lease classification.
    d. It is considered a direct financing lease.

14. In a finance lease, how is the interest component of the lease payment calculated by the lessee under AS 19?
    a. It remains constant throughout the lease term.
    b. It decreases over the lease term.
    c. It increases over the lease term.
    d. It is equal to the lease payment.

15. As per AS 19, a leased asset should be depreciated over the?
    a. Shorter of the lease term and the assets useful life
    b. Longer of the lease term and the assets useful life
    c. Entire lease term
    d. Useful life of the asset.

16. In the books of seller-lessee, If a sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount is?
    a. immediately recognised as income or loss in the financial statements.
    b. deferred and amortised over the lease term in proportion to the depreciation of the leased asset.
    c. If there is loss, then immediately recognized in P&L statement and if there is gain, then amortised over the lease term.
    d. Either (a) or (b)

17. If Sale and leaseback transaction results in an operating lease and sale price is more than fair value, the excess amount is?
    a. credited to Profit and Loss statement
    b. deferred and amortized over expected period of use of the asset
    c. deferred and amortized over period of five years
    d. amortized in proportion to lease payments

18. If Sale and leaseback transaction results in a finance lease, any excess or deficiency of sales proceeds over the carrying amount should be?
    a. credited to Profit and Loss statement.
    b. deferred and amortized over the lease term in proportion to the depreciation of the leased asset.
    c. deferred and amortized over period of five years.
    d. amortized in proportion to lease payments

19. N Limited has entered into lease agreement for machinery from S Limited for 10 years for ₹ 1 lakh per year. Guaranteed scrap value of machinery after 10 years is ₹ 0.5 lakh unguaranteed scrap value is ₹ 0.2 lakh. Present Value of ₹ 1 lakh for 10 years is ₹ 7 lakh, Present value of ₹ 0.5 lakh after 10th year is 0.18 lakh & of ₹ 0.2 lakh is ₹ 0.07 lakh. Calculate Unearned Finance Income for S Limited.
    a. ₹ 3.45 lakh
    b. ₹ 3 lakh
    c. ₹ 3.32 lakh
    d. ₹ 3.13 lakh

Answers:

1. (b)
2. (a)
3. (c)
4. (c)
5. (b)
6. (c)
7. (a)
8. (a)
9. (d)
10. (a)
11. (a)
12. (c)
13. (a)
14. (b)
15. (a)
16. (b)
17. (b)
18. (b)
19. (a)

EARNINGS PER SHARE

AS 20

MCQ'S

1. AB Company Ltd. had 1,00,000 shares of common stock outstanding on January 1. Additional 50,000 shares were issued on July 1, and 25,000 shares were re- acquired on September 1. The weighted average number of shares outstanding during the year on Dec. 31 is
   a. 1,40,000 shares
   b. 1,25,000 shares
   c. 1,16,667 shares
   d. 1,20,000 shares

2. As per AS 20, potential equity shares should be treated as dilutive when, andonly when, their conversion to equity shares would
   a. Decrease net profit per share from continuing ordinary operations.
   b. Increase net profit per share from continuing ordinary operations.
   c. Make no change in net profit per share from continuing ordinaryoperations.
   d. Decrease net loss per share from continuing ordinary operations.

3. As per AS 20, equity shares which are issuable upon the satisfaction of certain conditions resulting from contractual arrangements are
   a. Dilutive potential equity shares
   b. Contingently issuable shares
   c. Contractual issued shares
   d. Potential equity shares

4. In case potential equity shares have been cancelled during the year, theyshould be:
   a. Ignored for computation of Diluted EPS.
   b. Considered from the beginning of the year till the date they are cancelled.
   c. The company needs to make an accounting policy and can follow the treatment in (a) or (b) as it decides.
   d. Considered for computation of diluted EPS only if the impact of such potential equity shares would be material.

5. Partly paid up equity shares are:
   a. Always considered as a part of Basic EPS.
   b. Always considered as a part of Diluted EPS.
   c. Depending upon the entitlement of dividend to the shareholder, it will be considered as a part of Basic or Diluted EPS as the case may be.
   d. Considered as part of Basic/ Diluted EPS depending on the accounting policy of the company.

6. Which of the following statements is correct?
   (1) Options are generally dilutive in nature.
   (2) Options are generally more dilutive as compared to other potential equity shares.

a) Both (1) and (2) are correct.
b) Both (1) and (2) are incorrect.
c) Only (1) is correct.
d) Only (2) is correct.

7. Which of the following is not a Potential Equity Share?
   a) Employee stock option
   b) Share warrants
   c) Cumulative Preference Shares
   d) Shares issuable under a loan contract upon default of payment of principal or Interest

8. Number of shares outstanding as on 01-01-2023 are 2000. Fresh issue of 600 shares for cash on 31-05-2023. Buy back of 300 shares on 01-11-2023. Calculate weighted average outstanding number of shares.
   a. 2300 shares
   b. 2500 shares
   c. 2000 shares
   d. 2800 shares

9. Opening balance of shares as on 01-01-2023 is 2000 shares. On 31-10-2023, issue of 600 shares of ₹ 10 each, ₹ 5 paid up. Calculate weighted average outstanding number of shares.
   a. 2100 shares
   b. 2050 shares
   c. 2000 shares
   d. 1500 shares

10. XYZ Limited reported a net profit of ₹ 50,00,000 for the year ended 31st December 2022. The company had 20 Lakh ordinary shares outstanding throughout the year. On 1st July 2022, XYZ issued ₹ 30,00,000 of 5% convertible bonds of ₹100 each convertible into 10 shares. The bonds were outstanding for the entire year, and XYZ pays tax at a rate of 25%. Calculate the diluted earnings per share (EPS) for the year ended 31st December 2022.
    a. 1.80
    b. 2.00
    c. 2.50
    d. 2.35

Answers:

1. (c)
2. (a)
3. (b)
4. (b)
5. (c)
6. (a)
7. (c)
8. (a)
9. (a)
10. (d)

AS 21: CONSOLIDATED FINANCIAL STATEMENTS

CH 8

MCQ'S

1. A single set of financial statements that combines the separate sets of financial statements of a parent and its subsidiaries is known as
   a) equity financial statements
   b) condensed financial statements
   c) consolidated financial statements
   d) interim financial statements

2. ABC Limited acquired 70% of the shares of PQR Limited directly from the owners of those shares. The shares were purchased on the market for ₹400000 in total. PQR Limited must?
   a) recognize the inflow of cash of ₹400000 and an increase in issued capital of ₹400 000.
   b) recognize an investment of ₹400000 and an increase in equity of ₹400000.
   c) de-recognize share capital amounting to ₹400000.
   d) not make an accounting entry as the transaction is between ABC Limited and the individual shareholders of PQR Limited.

3. When one entity controls the business operations of another entity, the business combination results in the following type of relationship:
   a) parent-subsidiary
   b) Partnership
   c) a merger
   d) dual-listed

4. For the purposes of consolidated financial reporting, a group is
   a) an entity that has no subsidiaries.
   b) a parent entity and all its subsidiaries.
   c) an entity that has one or more subsidiaries.
   d) a subsidiary entity of another entity.

5. The process of preparing combined financial statements of a group of entities is known as
   a) accrual accounting
   b) condensation
   c) accumulation
   d) consolidation

6. The method adopted in combining the separate sets of financial statements of entities in a group to form a set of consolidated financial statements is
   a) set-off all assets and liabilities and recognize a single net investment.
   b) line-by-line recognition of the elements of financial statements.
   c) combine the cash balances of the separate entities into one-line and aggregate the remaining net assets into one item.
   d) combine all assets and liabilities into one net assets item and combine all profits and losses into one profit or loss item.

7. A group of entities comprised of All Limited, Night Limited and Long Limited have the following cash balances: All Limited ₹2,000, Night Limited ₹5,000, Long Limited ₹10,000. All Limited is the parent entity. The consolidated financial statements show the following amount as the consolidated cash balance?
   a) ₹2,000
   b) ₹7,000
   c) ₹15,000
   d) ₹17,000

8. The process of consolidation involves?
   a) balance date adjusting journal entries to the ledger accounts of the subsidiaries.
   b) balance date adjusting entries to the ledger accounts of the parent entity.
   c) no adjustments to the individual ledger accounts of entities in the group.
   d) accruals directly to the balance of the retained earnings account of the parent entity.

9. A full set of consolidated financial statements comprises a consolidated
   i. Statement of financial position
   ii. Statement of Profit & Loss
   iii. Statement of cash flows
   a) i and ii only
   b) i, ii and iii only
   c) ii and iii only
   d) i and iii only

10. If consolidated financial statements are required to be prepared
    a) they are additional to the separate financial statements of the entities in the group.
    b) there is no need to prepare separate financial statements for the entities in the group.
    c) the need to prepare separate financial statements for the parent entity is redundant.
    d) it is not necessary to prepare separate financial statements for the subsidiary entities of the group.

11. Control is automatically presumed to exist where the parent either directly or indirectly through subsidiaries owns
    a) more than 25% but less than 50% of the voting power of an entity.
    b) more than 10% but less than25% of the voting power of an entity.
    c) not more than 49% of the voting power of an entity.
    d) more than 50% of the voting power of an entity.

12. Minority interest should be presented in the consolidated balance sheet
    a) As a part of liabilities.
    b) As a part of equity of the parent's shareholders.
    c) Separately from liabilities and the equity of the parent's shareholders.
    d) As a part of assets.

13. Minority of the subsidiary is entitled to
    a) Capital profits of the subsidiary company.
    b) Revenue profits of the subsidiary company.
    c) Both capital and revenue profits of the subsidiary company.
    d) Neither capital nor revenue profits of the subsidiary.

14. In consolidation of accounts of holding and subsidiary company, ___________ is eliminated in full.
    a) Current liabilities of subsidiary company.
    b) Reserves and surplus of both holding and subsidiary company.
    c) Mutual indebtedness.
    d) Nothing.

15. In consolidated balance sheet, the share of the outsiders in the net assets ofthe subsidiary must be shown as
    a) Minority interest.
    b) Capital reserve.
    c) Current liability.
    d) Current assets.

16. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of
    a) Current liability.
    b) Revenue profit.
    c) Capital profit.
    d) Current assets.

17. Pre-acquisition profit in subsidiary company is considered as:
    a) Revenue profit.
    b) Capital profit.
    c) Goodwill
    d) Cost of control

18. Subsidiary company in relation to any other company (that is to say the holding company), means a company in which the holding company -…………….
    a) Controls the composition of the Board of Directors
    b) Exercises or controls more than 50% of the total voting power either at its own or together with one or more of its subsidiary companies
    c) Both (A) or (B)
    d) Neither (A) nor (B)

19. Which section of the Companies Act, 2013 requires the preparation of consolidated financial statements
    a) Section 127
    b) Section 128
    c) Section 130
    d) Section 129

20. Holding company holds more than ………….. voting power in subsidiary company.
    a) 25%
    b) 40%
    c) 50%
    d) 75%

21. Holding company's share in revenue profits of subsidiary company is adjusted in:
    a) Cost of control
    b) Shown on assets side of balance sheet
    c) Profit and loss account of holding company
    d) Capital profits of holding company

22. If cost of acquisition of shares in the subsidiary company is less than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
    a) Minority interest
    b) Capital Reserve
    c) Goodwill
    d) Significant cost

23. Dividend received out of pre-acquisition profits of subsidiary
    a) It should be treated as revenue income and credited to the Profit and Loss A/c.
    b) Added while calculating 'cost of control'.
    c) Should be treated as capital receipt and credited to Investment A/c
    d) Will increase the Goodwill while calculating cost of control.

24. If cost of acquisition of shares in the subsidiary company is more than intrinsic value of the shares of subsidiary company on the date of acquisition then resultant figure will be:
    a) Minority interest
    b) Capital Reserve
    c) Goodwill
    d) Significant cost

25. Which of the following treatment is correct for mutual debts with regard to purchase and sale of goods between holding and subsidiary company
    a) Amount of mutual debt will be added to the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.
    b) Amount of mutual debt will be ignored as it is not asset or liability.
    c) Amount of mutual debt will be deducted from the Debtors and Creditors on asset side and liability side respectively while preparing the consolidated balance sheet.
    d) Amount of mutual debt will require adjustment on debtors figure on asset side only.

26. H Ltd. acquires 70% of the equity shares of S Ltd. on 1.1.2023. On that date, paid-up capital of S Ltd. was 10,000 equity shares of ₹ 10 each; accumulated reserve balance was ₹ 1,00,000. H Ltd. paid ₹ 1,60,000 to acquire 70% interest in the S Ltd. Assets of S Ltd. were revalued on 1.1.2023 and a revaluation loss of ₹ 20,000 was ascertained. Which of the following is correct in relation to cost of control of group consolidated financial statement.
    a) Capital Reserve — ₹ 34,000
    b) Goodwill — ₹ 34,000
    c) Capital Reserve — ₹ 1,26,000
    d) Goodwill — ₹ 1,26,000

Answers:

1. (c)
2. (d)
3. (a)
4. (b)
5. (d)
6. (b)
7. (d)
8. (c)
9. (b)
10. (a)
11. (d)
12. (c)
13. (c)
14. (c)
15. (a)
16. (a)
17. (b)
18. (c)
19. (d)
20. (c)
21. (c)
22. (b)
23. (c)
24. (c)
25. (c)
26. (b)

ACCOUNTING FOR INVESTMENT IN ASSOCIATES IN CONSOLIDATED FINANCIAL STATEMENTS

AS 23

MCQ'S

1. Identity which of the statements are correct.
   An enterprise can influence the significant economic decision making bymany ways like
   i. Representation on the board of directors or governing body of theinvestee.
   ii. Participation in policy-making processes.
   iii. Interchange of managerial personnel.
   iv. Provision of essential technical information.
      a. Statement (i) and (ii) are correct.
      b. Statement (i), (ii) and (iii) are correct.
      c. Statement (i), (ii), (iii) and (iv) are correct.
      d. Statement (ii) and (iii) are correct.

2. A Ltd. is holding 90% share in B Ltd. and 10% shares in C Ltd., and B Ltd. isholding 11% shares in C Ltd. Identity which of the statements are incorrect.
   i. In this case, A Ltd. is parent of B Ltd.
   ii. As far as the relationship between A Ltd. and C Ltd. is concerned; A Ltd. has a total of direct and indirect holding of (10% + 90% of 11%) 19.9 %in C Ltd.
   iii. C Ltd. is an associate of A Ltd.
      a. Statement (ii) is incorrect.
      b. Statement (iii) is incorrect.
      c. Statement (ii) and (iii) both are incorrect.
      d. All statements are incorrect.

3. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 of the same year. Other information is as follows:
   Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,55,000
   Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.
   What is the amount of goodwill or capital reserve arising on significantinfluence?
   a. Goodwill = ₹ 10,000.
   b. Goodwill = ₹ 20,000.
   c. Capital Reserve = ₹ 10,000.
   d. Capital Reserve = ₹ 20,000.

4. A Ltd. acquired 10% stake of B Ltd. on April 01 and further 15% on October 01 during the same year. Other information is as follow:
   Cost of Investment for 10% ₹ 1,00,000 and for 15% ₹ 1,45,000
   Net asset on April 01 ₹ 8,50,000 and on October 01 ₹ 10,00,000.
   What is the amount of goodwill or capital reserve arising on significantinfluence?
   a. Goodwill = ₹ 10,000.
   b. Goodwill = ₹ 20,000.
   c. Capital Reserve = ₹ 10,000.
   d. Capital Reserve = ₹ 20,000.

5. Identity which of the statements are correct.
   i. In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed without taking into consideration the proposed dividend.
   ii. In case an associate has made a provision for proposed dividend (i.e. dividend declared after the reporting period but it pertains to that reporting year) in its financial statements, the investor's share of the results of operations of the associate should be computed after taking into consideration the proposed dividend.
   iii. The potential equity shares of the investee held by the investor shouldnot be taken into account for determining the voting power of the investor.
   iv. The potential equity shares of the investee held by the investor shouldbe taken into account for determining the voting power of the investor.
      a. Statement (i) and (iii).
      b. Statement (ii) and (iv).
      c. Statement (i) only.
      d. Statement (iii) only.

6. ....of voting power in investee company by investor company is considered as significant influence.
   a. 15%
   b. 20%
   c. 10%
   d. 5%

7. An investor should stop using equity method if..................
   a. It ceases to have a significant impact in associate company
   b. When following equity method is not appropriate
   c. Both (a) and (b)
   d. None of the above

8. AS 23 doesn't applies to:-
   a. Subsidiary Companies
   b. Joint venture
   c. Associate companies
   d. Both (a) and (b)

9. X ltd acquired 10% shareholding of Y Ltd. on 1 January and further 15% on 1 July of the same year.
   Cost of investment for 10% = 200000
   Cost of investment for 15% = 290000
   Net asset on 1 January 1700000 and on 1 July 2000000
   Calculate the amount of goodwill/capital reserve.
   a. Goodwill 20000
   b. Goodwill 40000
   c. Capital reserve 20000
   d. Capital reserve 40000

Answers:

1. (c)
2. (a)
3. (b)
4. (a)
5. (a)
6. (b)
7. (c)
8. (d)
9. (b)

DISCONTINUING OPERATIONS

AS 24

MCQ'S

1. AB decided to dispose of its Clothing division as part of its long-term strategy.
    a. Date of Board approval - 1st March 2021;
    b. Date of formal announcement made to affected parties - 15th March 2021.
    c. Date of Binding Sale agreement – 1st July 2021;
    d. Reporting date – 31st March 2021

    The date of initial disclosure event would be:
    a. 1st March 2021
    b. 15th March 2021
    c. 31st March 2021
    d. 31st July 2021

2. To qualify as a component that can be distinguished operationally and forfinancial reporting purposes, the condition(s) to be met is (are):
    a. The operating assets and liabilities of the component can be directlyattributed to it.
    b. Its revenue can be directly attributed to it.
    c. At least a majority of its operating expenses can be directly attributed to it.
    d. All of the above

3. Identify which of the following statements is incorrect?
    a. A discontinuing operation is a component of an enterprise that representsa separate major line of business or geographical area of operations.
    b. A discontinuing operation is a component of an enterprise that can be distinguished operationally and for financial reporting purposes.
    c. A discontinuing operation is a component of an enterprise that may ormay not be distinguished operationally and for financial reporting purposes.
    d. A discontinuing operation may be disposed of in its entirety or piecemeal, but always pursuant to an overall plan to discontinue the entire component.

4. Identify the incorrect statement.
    a. Discontinuing operations are infrequent events, but this does not meanthat all infrequent events are discontinuing operations.
    b. The fact that a disposal of a component of an enterprise is classified as a discontinuing operation under AS 24 would always raise a question regarding the enterprise's ability to continue as a going concern.
    c. For recognising and measuring the effect of discontinuing operations, AS 24 does not provide any guidelines, but for the purpose the relevantAccounting Standards should be referred.
    d. An enterprise shall include a description of the discontinuing operation,in its financial statements beginning with the financial statements for the period in which the initial disclosure event occurs.

Answers:

1. (b)
2. (d)
3. (c)
4. (b)

INTANGIBLE ASSETS

AS 26

MCQ'S

1. Which of the following is not covered within the scope of AS 26?
   a. Intangible assets held-for-sale in the ordinary course of business
   b. Assets arising from employee benefits
   c. (a) & (b) both
   d. Research and development activities

2. Intangible asset is recognised if it:
   a. meets the definition of an intangible asset
   b. is probable that future economic benefits will flow
   c. the cost can be measured reliably
   d. meets all of the above parameters

3. Sun Limited has purchased a computer with various additional software. These are integral part of the computer. Which of the following are true in the context of AS 26:
   a. Recognise Computer and software as tangible asset
   b. Recognise tangible and intangible separately
   c. Recognise computer and software as intangible asset
   d. Does not recognize the software as an asset.

4. Hexa Ltd developed a technology to enhance the battery life of mobile devices. Hexa has capitalised development expenditure of ₹ 5,00,000. Hexa estimates the life of the technology developed to be 3 years but the company has forecasted that 50% of sales will be in year 1, 35% in year 2 and 15% in year 3. What should be the amortisation charge in the second year of the product's life?
   a. ₹ 2,50,000
   b. ₹ 1,75,000
   c. ₹ 1,66,667
   d. ₹ 1,85,000

5. Which of the following is an objective of AS 26?
   a. To prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard.
   b. To specify how to measure the carrying amount of intangible assets.
   c. To specify disclosure requirements about intangible assets.
   d. All of the above.

6. If an asset incorporates both intangible and tangible elements, it shall be treated under
   a. AS 10 Property, Plant and Equipment
   b. AS 26 Intangible Assets
   c. A or B, depending which element is more significant
   d. A and B

7. What are intangible assets?
    a. Monetary assets with physical substance
    b. 'Non-monetary assets without physical substance
    c. Non-monetary assets with physical substance
    d. Monetary assets without physical substance

8. If an intangible asset is exchange for another, cost of intangible assets is measured at
    a. Cost price
    b. Acquisition price
    c. Fair value
    d. Nominal value

9. As per AS 26 internally generated goodwill is:
    a. Not recognised as an asset
    b. Recognised after 3 years
    c. Recognised as an assets
    d. Recognised if accrued

10. Which of the following items qualify as an intangible asset under AS 26?
    a. Advertising and promotion on the launch of a huge product
    b. Operating losses incurred during the initial stages of the project
    c. Legal costs paid to intellectual property lawyers to register a patent
    d. Expenditure on research

11. Gain or loss arising from the disposal of an intangible asset is?
    a. Recognised as income or expense in the Statement of Profit and Loss in the year of disposal
    b. Deferred over a period of five years
    c. Capitalized
    d. Not recognized at all

Answers:

1. (c)
2. (d)
3. (a)
4. (b)
5. (d)
6. (c)
7. (b)
8. (c)
9. (a)
10. (c)
11. (a)

FINANCIAL REPORTING OF INTEREST IN JOINT VENTURES

AS 27

MCQ'S

1. State which of the following statements are incorrect.
   i. The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies only when consolidated financial statements are prepared by venturer.
   ii. The requirements relating to accounting for joint ventures in consolidated financial statements according to proportionate consolidation method, as contained in AS 27, applies irrespective whether consolidated financial statements are prepared by venturer or not.
   iii. An investor in joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financial statements in accordance with AS 13, AS 21 and AS 23as the case may be.
      a. Point (i) is incorrect.
      b. Point (ii) is incorrect.
      c. Point (iii) is incorrect.
      d. None of the above.

2. Identify which of the following is not a feature of a Jointly controlledoperations (JCO):
   a. Each venturer has his own separate business.
   b. There is a separate entity for joint venture business.
   c. Each venturer record only his own transactions without any separately set of books maintained for the joint venture business.
   d. There is a common agreement between all of them.

3. Identify which of the following is/are not a feature of a Jointly controlled assets (JCA):
   i. There is a separate legal identity.
   ii. There is a common control over the joint assets.
   iii. Expenses on jointly held assets are shared by the venturers as per the contract.
   iv. In their financial statement, venturer shows only their share of the asset and total income earned by them along with total expenses incurred by them.
      a. Point no. (i) only.
      b. Point no. (i) and (iii).
      c. Point no. (iii) and (iv).
      d. Point (i) and (ii).

4. Identify which is/ are features of a Jointly controlled entity (JCE):
   i. Venturer creates a new entity for their joint venture business.
   ii. All the venturers pool their resources under new banner and this entity purchases its own assets, create its own liabilities, expenses are incurredby the entity itself and sales are also made by this entity.
   iii. The revenues and expenses of the entity is shared by the venturers inthe ratio agreed upon in the contractual agreement.

a. Point no. (i) only.
b. Point no. (i) and (ii).
c. Point no. (i) (ii) and (iii).
d. Point no. (iii).

5. Identify the correct statements.
From the date of discontinuing the use of the proportionate consolidationmethod:
   i. If interest in entity is more than 50%, investments in such joint ventures should be accounted for in accordance with AS 21, Consolidated Financial Statements.
   ii. If interest is 20% or more but upto 50%, investments are to be accounted for in accordance with AS 23, Accounting for Investment in Associates in Consolidated Financial Statements.
   iii. For all other cases investment in joint venture is treated as per AS 13, Accounting for Investments.
   iv. For this purpose, the fair value of the investment at the date on whichjoint venture relationship ceases to exist should be regarded as cost thereafter.
      a. Point no. 1 and 2.
      b. Point no. 1, 2 and 3.
      c. Point no. 1, 2, 3 and 4.
      d. None of the above.

6. What is the primary objective of AS 27?
   a. To determine fair value of assets
   b. To prescribe accounting treatment for joint ventures
   c. To calculate depreciation
   d. To assess liquidity ratios

7. What kind of joint ventures classified under AS 27?
   a. Jointly controlled operations
   b. Jointly controlled assets and
   c. Jointly controlled entities
   d. All of the above

8. Joint venture requires:
   a. Two or more parties
   b. Contractual agreement
   c. Both (a) and (b)
   d. Social work

9. A separate entity is not created under this form of joint venture:
   a. Jointly controlled operations
   b. Jointly controlled assets and
   c. Jointly controlled entities
   d. Both (a) and (b)

10. In……………………,, venturer use their own assets.
   a. Jointly controlled operations
   b. Jointly controlled assets
   c. Jointly controlled entities
   d. None of the above

11. In case of jointly controlled entity, how are joint assets and liabilities recognized in the financial statements?
    a. Using proportionate consolidation
    b. Using equity method
    c. Based on the controlling interest
    d. Ignored in accounting

12. Under jointly controlled assets , venturers show…………….in financial statements :-
    a. Their share in assets
    b. Expenses incurred under joint venture
    c. Income earned under venture
    d. All of the above

13. ………………… raise finance in its own right.
    a. Jointly controlled operations
    b. Jointly controlled assets and
    c. Jointly controlled entities
    d. None of the above

Answers:

1. (b)
2. (b)
3. (a)
4. (c)
5. (b)
6. (b)
7. (d)
8. (c)
9. (d)
10. (a)
11. (a)
12. (d)
13. (c)

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

AS 29

MCQ'S

1. Which of the following best describes a provision?
   a. A provision is a liability of uncertain timing or amount.
   b. A provision is a possible obligation of uncertain timing.
   c. A provision is a credit balance set up to offset a contingent asset so thatthe effect on the statement of financial position is nil.
   d. A provision is a possible obligation of uncertain amount.

2. X Co. is a business that sells second hand cars. If a car develops a fault within30 days of the sale, X Co. will repair it free of charge. At 1st March 2023, X Co. had made a provision for repairs of ₹ 25,000. At 31st March 2023, X Co. calculated that the provision should be ₹ 20,000. What entry should be madefor the provision in X Co's income statement for the month 31st March 2023?
   a. A charge of ₹ 5,000
   b. A credit of ₹ 5,000
   c. A charge of ₹ 20,000
   d. A credit of ₹ 25,000

3. Which of the following item does the statement below describe?
   "A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control"
   a. A provision
   b. A current liability
   c. A contingent liability
   d. Deferred tax liability

4. Z Ltd has commenced a legal action against Y Ltd claiming substantial damages for supply of a faulty product. The lawyers of Y Ltd have advisedthat the company is likely to lose the case, although the chances of paying the claim is not remote. The estimated potential liability estimated by the lawyersare:
   Legal cost (to be incurred irrespective of the outcome of the case) ₹ 50,000
   Settlement if the claim is required to be paid ₹ 5,00,000
   What is the appropriate accounting treatment in the books of Z Ltd.?
   a. Create a Provision of ₹ 5,50,000
   b. Make a Disclosure of a contingent liability of ₹ 5,50,000
   c. Create a Provision of ₹ 50,000 and make a disclosure of contingentliability of ₹ 5,00,000
   d. Create a Provision of ₹ 5,00,000

5. An onerous contract is a contract in which _________ of meeting the obligations under the contract _________ the economic benefits expected to be received under it.
   a. Unavoidable costs; are less than
   b. Unavoidable costs; exceed

   c. Avoidable costs; exceed
   d. Avoidable costs; are less than

6. Which of the following statements does more likely define the term “restructuring”?
   a. Significant change in the scope of a business undertaken by an entity
   b. Significant change in the manner in which that business is conducted
   c. None of the above
   d. Either a or b

7. Contingent asset usually arises from unplanned or unexpected events that give rise to
   a. The possibility of an inflow of economic benefits to the business entity.
   b. The possibility of an outflow of economic benefits to the business entity.
   c. Either (a) or (b)
   d. None of the above.

8. In Financial Statements, Contingent Liabilities are?
   a. Recognized
   b. Not Recognized
   c. Adjusted
   d. Not disclosed.

9. If an inflow of economic benefits is probable then a contingent asset is disclosed
   a. In the financial statements.
   b. In the report of the approving authority (Board of Directors in the case of a company, & corresponding approving authority in case of any other enterprise).
   c. In the cash flow statement.
   d. None of the above

10. In the case of__________, either outflow of resources to settle the obligation is not probable or the amount expected to be paid to settle the liability cannot be measured with sufficient reliability.
    a. Liability
    b. Provision
    c. Contingent liabilities
    d. Contingent Asset

11. Present liability of uncertain amount, which can be measured reliably by using a substantial degree of estimation is termed as
    a. Provision.
    b. Liability.
    c. Contingent liability.
    d. Contingent Asset

12. XYZ limited has likely liability of ₹ 10 cr. for which it is considering to create provision in books of accounts. However, if liability materialises, then XYZ limited is entitled to sell an asset of ₹ 1 cr. What should be the accounting treatment of ₹ 1 cr. while recognizing provision in books?
    a. ₹ 1 crore should be ignored
    b. Provision should be reduced by ₹ 1 cr.
    c. Gain should be recorded separately for ₹ 1 cr.
    d. Present value of ₹ 1 cr. should be recorded as income

13. A company had made a provision for rent liability of ₹ 10 cr. & interest provision of ₹ 1 cr. However, Court made order to the company to pay ₹ 8 cr. Rent & ₹ 1.5 cr. interest. What should be the correct accounting treatment?
    a. Provision for Rent of ₹ 2 cr. shall be written back and provision for interest shall be increased by ₹ 0.5 cr.
    b. Provision for Rent of ₹ 1.5 cr. shall be written back and remaining rent provision shall be adjusted with additional interest by ₹ 0.5 cr.
    c. Total provision of ₹ 11 cr. shall be written back and fresh rent & interest expense shall be booked by ₹ 8 cr. & ₹ 1.5 cr. respectively.
    d. Provision for Rent of ₹ 10 cr. shall be written back and provision for interest shall be increased by ₹ 0.5 cr.

14. As per AS 29, Provisions, Contingent Liabilities and Contingent Assets warranty claims normally generate.
    a. A contingent liability
    b. A provision
    c. A contingent asset
    d. An onerous contract

15. AS 29 is applicable in making provision from which of the following case?
    a. Onerous Contract
    b. Provision for employee benefit
    c. Deferred tax liability
    d. None of the above

16. What should be the accounting treatment of Income which is Virtually certain?
    a. Recognised in P&L
    b. Disclosed in notes to accounts
    c. Considered as Remote
    d. No Action is required

17. In line with AS 29 Provisions, Contingent Liabilities and Contingent Assets, a provision shall be recognized when?
    a. An entity has a present obligation that is a result of a past event
    b. It is probable that an outflow of resources embodying economic benefits will be required
    c. A reliable estimate can be made of the amount of the obligation
    d. All the three

18. What does a restructuring provision not include?
    a. Investment in new systems
    b. Relocating continuing staff
    c. Marketing
    d. All of these

Answers:

1. (a)
2. (b)
3. (c)
4. (c)
5. (b)
6. (d)
7. (a)
8. (b)
9. (b)
10. (c)
11. (a)
12. (a)
13. (a)
14. (b)
15. (a)
16. (a)
17. (d)
18. (d)

BRANCH ACCOUNTING

CH 6

MCQ'S

1. The method of Branch Accounting varies with the nature and the status of branch.
   a) True
   b) False
   c) Both a and b
   d) None of the above

2. The normal and abnormal stock of goods doesn't appear in branch account as the closing stock is at the_______ figure.
   a) Adjusted
   b) Profit
   c) Balance
   d) Loss

3. Loading on surplus in stock is_______ to Branch Adjustment Account.
   a) Debit.
   b) Credit
   c) Liability
   d) Trading

4. Under Stock and Debtors System general income is credited to _________account.
   a) Balance sheet
   b) Branch stock account
   c) Debtor account
   d) Branch profit and loss

5. In Branch Accounting the balance on stock reserve Account at the end of the period is shown in the balance sheet by the way of deduction from
   a) Opening stock.
   b) Reserved stock.
   c) Closing stock.
   d) Profit or loss

6. Goods sent by the head office at the end of the year but not received by Branch before the year end is known as
   a) Goods in transit
   b) Loss by fire
   c) Shortage.
   d) Loss

7. The closing balance of book debts account is ascertained by preparing branch _______Account.
   a) Stock
   b) Trading.

c) Debtors
d) Adjustment

8. The removal of loading from the items of branch stock is adjusted through branch________ Account.
a) Adjustment
b) Debtor.
c) Stock
d) Profit and loss

9. All items of stock in Trading and Profit and loss Account are to be converted into cost price if these are given at an
a) Profit ratio
b) Market price
c) Balance
d) Invoice price

10. Foreign Branch almost invariably trade independently and records their transaction in
a) Cost price
b) Market value
c) Foreign currency
d) Invoice price

11. In branch accounts, in debtor's system, opening balances of assets are
a) Credited to Branch Account
b) Debited to Branch Account
c) Not shown in Branch Account
d) None of the above

12. Which one of the following is NOT true about a dependent branch.
a) These branches sell only those goods which are received from the head office.
b) Petty expenses are paid by the branch and petty cash account is prepared at the branch either as simple petty cash or on imprest system
c) Such branches maintain their own books of account.
d) All expenses of the branch are paid by the head office.

13. A branch which keeps complete record of all accounting transactions is called
a) A Foreign branch
b) A Local branch
c) An Independent branch
d) A Dependent branch

14. Head Office of ABC & Co. transfers goods to Branch at a price that includes a mark-up/profit of 25% on cost. If the closing stock at Branch is ₹ 1,00,000, stock reserve will be created for:
a) ₹ 25,000
b) ₹ 1,00,000
c) ₹ 20,000
d) ₹ 80,000

15. Dependent branch can make
    a) Only cash sales
    b) Only credit sales
    c) Both cash and credit sales
    d) None of the above

16. If the head office has sent goods worth ₹ 5,00,000 to the branch but the branch has received goods worth only ₹ 3,00,000 by 31st March of the year, the entry to be passed in the books of the branch would be:

    a) Goods-in-Transit A/c Dr ₹ 2,00,000
       To Head Office A/c ₹ 2,00,000

    b) No entry will be passed by branch and only head office will pass an entry

    c) Head Office A/c Dr ₹ 2,00,000
       To Goods-in-Transit A/c ₹ 2,00,000

    d) Goods-in-Transit A/c Dr ₹ 5,00,000
       To Head Office A/c ₹ 5,00,000

17. Which of the following are not considered as method of maintaining accounting of dependent branch under goods invoiced at cost or selling price?
    a) Debtors Method
    b) Stock and Debtors Method
    c) Trading and Profit and loss account Method or Final Method
    d) Whole sale branches method

18. In which method of branch accounting, at the end of the year, the value of unsold stock, the total of customer's balances outstanding and that of petty cash are brought into the branch account on the credit side?
    a) Debtors Method
    b) Stock and Debtors method
    c) Final Accounts Method
    d) None of the above

19. P Ltd opened a branch at Jaipur and sent goods costing ₹ 50,000 to Jaipur branch. Jaipur Branch sold entire goods on credit at ₹ 62,000. No other transaction occurred at the branch. What is the net profit earned by branch?
    a) ₹ 12,000
    b) ₹ 22,000
    c) ₹ 28,000
    d) ₹ 18,000

20. X Ltd opened a new branch at Delhi. X Ltd sent goods costing ₹ 40,000 to Delhi branch. Delhi branch sold entire goods in cash at ₹ 70,000. Branch paid expenses of ₹ 12,000. No other transaction occurred at the branch. Find out the profit.
    a) ₹ 30,000
    b) ₹ 8,000
    c) ₹ 18,000
    d) ₹ 12,000

21. Under branch accounting in Stock and Debtors method, what is the purpose of opening Branch Stock Account by the head office?
    a) Ascertainment of total expenses incurred
    b) Ascertainment of closing balance of Debtors
    c) Ascertainment of shortage or surplus
    d) Ascertainment of cost of goods sent to branch

22. Calculate the amount of Net Profit transferred to General P&L A/c under Final Accounts Method if Gross Profit is ₹ 60,000; Expenses ₹ 30,000; Petty Cash Expenses ₹ 4,000 ?
    a) ₹ 24,000
    b) ₹ 26,000
    c) ₹ 30,000
    d) ₹ 56,000

23. Calculate Closing balance on 31.03.2024 of Bangalore Branch Debtor A/c if Opening balance as on 01.04.2023 is ₹ 10,800; Cash ₹ 28,500; Discount ₹ 1,500; Sales ₹ 56,000 and Return ₹ 250?
    a) ₹ 36,500
    b) ₹ 36,550
    c) ₹ 36,250
    d) ₹ 36,000

24. What is value of Stock reserve if net stock is valued at ₹ 48,000 and goods are sent at 20% above cost to branch?
    a) ₹ 8,000
    b) ₹ 9,600
    c) ₹ 8,600
    d) ₹ 9,000

25. Calculate the value of Goods in Transit if head office situated at Delhi send goods to Ganganagar Branch at 25% above cost. Goods sent to branch is ₹ 5,30,000 till 31/03/2024 but goods received by Branch is ₹ 5,10,000.
    a) ₹ 16,000
    b) ₹ 20,000
    c) ₹ 26,000
    d) ₹ 22,000

26. Calculate the amount of Debtors if Goods are invoiced at 20% above cost and amount of credit sales is ₹ 1,35,000 and amount of collection is ₹ 1,06,000?
    a) ₹ 6,500
    b) ₹ 50,000
    c) ₹ 29,000
    d) None of the above

27. If M/s Puvi Nuvi Ltd. Has a business of sports equipment and send goods to number of outlets in India at cost plus 25% and then outlets sell goods at the retail shops at 20% above the wholesale price. What is the retail sales value if gross profit made by outlet is ₹ 75,000?
    a) ₹ 3,60,000
    b) ₹ 4,50,000

c) ₹ 3,50,000
d) ₹ 3,75,000

28. Which of the given below statement are correct?
Statement 1:- Branch maintains its entire books of account under double entry system in dependent branch.
Statement 2:- Branch opens in its books a Head Office account to record all transactions that take place between Head Office and branch. The Head Office maintains a Branch account to record these transactions in independent branch.
a) Only Statement 1
b) Only Statement 2
c) Both Statement 1 and 2
d) None of above

29. When books are kept by independent branch type what is the journal entry passed in the books of H.O. when Delhi Branch has paid its expenses?
a) Expenses A/c Dr.
To Bank or Cash A/c

b) Expenses A/c Dr.
To Branch Bank or Cash A/c

c) No Entry

d) Branch Expenses A/c Dr.
To Bank or Cash A/c

30. When books are kept by independent branch type what is the journal entry passed in the books of branch for depreciation on asset when Branch has purchased asset but asset account retained at H.O. books?
a) Depreciation A/c Dr.
To Head Office A/c
b) Depreciation A/c Dr.
To Asset A/c
c) Depreciation A/c Dr.
To Branch Asset A/c
d) Depreciation A/c Dr.
To H.O. Asset A/c

31. Pass Journal entry in the books of an independent Branch to rectify or adjust the following: Branch paid ₹ 50,000 as salary to H.O supervisor, but the amount paid by branch has been debited to salary account in the books of branch.

a)	Head office A/c Dr.	₹ 50,000	
	To Head office Salaries A/c		₹ 50,000
b)	Head office A/c Dr.	₹ 50,000	
	To Branch Salaries A/c		₹ 50,000
c)	Branch A/c Dr.	₹ 50,000	
	To Salaries A/c		₹ 50,000
d)	Head office A/c Dr.	₹ 50,000	
	To Salaries A/c		₹ 50,000

32. Which Accounting Standard is followed in accounting of foreign branches?
    a) AS-9
    b) AS-12
    c) AS-11
    d) AS-13

33. Resulting exchange rate difference should be accumulated in a ____________ until the disposal of “net investment in non-integral foreign operation”.
    a) foreign currency reserve
    b) foreign translation reserve
    c) currency translation reserve
    d) foreign currency translation reserve

34. ____________ is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.
    a) Foreign Operation
    b) Integral Foreign Operation
    c) Non-Integral Foreign Operation (NIFO)
    d) None of above

35. The business of a ____________ is carried on in a substantially independent way by accumulating cash and other monetary items, incurring expenses, generating income and arranging borrowing in its local currency.
    a) Foreign Operation
    b) Integral Foreign Operation
    c) Non-Integral Foreign Operation (NIFO)
    d) None of above

36. As per AS 11 assets and liabilities of non-integral foreign operations shouldbe converted at rate.
    a) Opening
    b) Average
    c) Closing
    d) Transaction

37. The debit or credit balance of “Foreign Currency Translation Reserve Account”
    a) Is shown as “Miscellaneous Expenditure” in the Balance Sheet
    b) Is shown under “Reserves and Surplus” as a separate line item
    c) Is shown as “Other Non-current” in the Balance Sheet
    d) Is shown as “Current Assets” in the Balance Sheet

38. If asset of an integral foreign operation is carried at cost, cost anddepreciation of tangible fixed asset is translated at
    a) Average exchange rate
    b) Closing exchange rate
    c) Exchange rate at the date of purchase of asset
    d) Opening exchange rate

39. Which of the following can be classified as an integral foreign operation?
    a) Branch office serving as an extension of the head office in terms of operations
    b) Independent subsidiary of the parent company
    c) Branch office independent of the head office in terms of operational decisions
    d) None of the above

40. If goods are invoiced to branches at cost, trading results of branch can be ascertained by
    a) Debtor's method.
    b) Stock and Debtors method.
    c) Either (a) or (b).
    d) Both (a) and (b).

41. Under branch trading and profit loss account method
    a) H.O prepares profit and loss account.
    b) Each branch is treated separate entity.
    c) Both (a) and (b).
    d) Either (a) or (b).

42. Goods may be invoiced to branch at
    a) Cost or Selling price.
    b) Wholesale price.
    c) Both (a) and (b).
    d) Either (a) or (b).

43. Under Debtors method, opening balance of Debtors is
    a) Debited to branch account.
    b) Credited to branch account.
    c) Debited to H.O account.
    d) Credited to H.O account.

44. Cost of goods returned by branch will have the following effect
    a) Goods sent to branch account will be debited.
    b) Branch stock account will be credited.
    c) Both (a) and (b).
    d) Either (a) or (b).

Answers:

1. (a)
2. (a)
3. (b)
4. (d)
5. (c)
6. (a)
7. (c)
8. (a)
9. (d)
10. (c)
11. (b)
12. (c)
13. (c)
14. (c)
15. (c)
16. (a)
17. (d)
18. (a)
19. (a)
20. (c)
21. (c)
22. (b)
23. (b)
24. (a)
25. (b)
26. (c)
27. (b)
28. (b)
29. (c)
30. (a)
31. (d)
32. (c)
33. (d)
34. (b)
35. (c)
36. (c)
37. (b)
38. (c)
39. (a)
40. (c)
41. (c)
42. (c)
43. (a)
44. (c)

BUYBACK OF SECURITIES

CH 3

MCQ'S

1) Debt Equity ratio after buyback must not be more than………
   a) 1:1
   b) 1:2
   c) 2:3
   d) 2:1

2) Buy-back of Equity Shares in any financial shares shall not exceeds.
   a) 5% of its total capital
   b) 20% of Nominal Share Capital
   c) 25% of fully paid Equity Shares
   d) None of above

3) As per section 68 of the Companies Act, 2013, a company can buy back its own shares out of:
   a) Free Reserves which are available for distribution as dividend.
   b) Securities premium account.
   c) Proceeds of fresh issue of shares or other specified securities.
   d) All of the above.

4) According to Sec. 68(5) of the Companies Act, 2013, the buyback can be made from:
   a) From the existing shareholders on a proportionate basis.
   b) From open market.
   c) From employees to whom shares are issued under stock option or sweat equity share.
   d) All of the above.

5) If shares are bought back out of free reserves then a sum equal to nominal value of the shares so bought back is transferred to:
   a) Capital reserve account.
   b) Capital redemption reserve account (CRR).
   c) General reserve account.
   d) Forfeited shares account.

6) Premium payable on buy back is adjusted out of:
   a) Securities premium account.
   b) Free reserves.
   c) Both of the above.
   d) None of the above.

7) Which of the following statement is false?
   a) Buy back must be authorised by articles of company.
   b) A special resolution must be passed for buy back.
   c) Shares can be partly paid up.

d) The ratio of debt owed by the company is not more than twice the capital and its free reserves after such buy back.

8) When a company completes buyback of its shares, it cannot further issue same kind of shares within a period of:
a) 6 months
b) 1 year
c) 2 years
d) 5 years

9) For cancellation of shares at the time of buy back:
a) Equity share capital a/c is debited and shareholders account is credited
b) Shareholders account is debited and Equity share capital account is credited
c) Equity share capital is debited and CRR is credited
d) Equity share capital is debited and Shares Surrendered is credited

10) As per SEBI Guidelines, modes of Buy-Back: Buy-back is permissible:
a) From the existing security holders on a proportionate basis through the tender offer;
b) From the open market through i. Book-building process, ii. stock exchange;
c) From odd lots, that is to say, where the lot of securities of a public company whose shares are listed on a recognized stock exchange is smaller than such marketable lot as may be specified by the stock exchange:
d) All of the above mentioned statements are correct.

11) Which of the following is not a free reserve for the purpose of buyback of shares?
a) General reserves
b) Surplus
c) Dividend equalisation reserves
d) Revaluation reserve

12) Provisions relating to buying back of securities are contained in which section of the Companies Act, 2013.
a) Section 77
b) Section 77A
c) Section 68
d) Section 63

13) The maximum permissible buy-back under the Companies Act, 2013 is
a) 15% of paid-up capital with Board resolution.
b) 25% of paid-up capital with Board resolution.
c) 25% of the aggregate of paid-up capital and free reserves of the company with a special resolution of shareholders.
d) 25% of the aggregate of paid-up capital and free reserves of the company with an ordinary resolution of shareholders.

14) For buy-back up to ____________of the company, Board resolution is sufficient.
a) 10% of paid-up capital
b) 10% of free reserves
c) 10% of paid-up capital or free reserves
d) 10% of paid-up capital and free reserves

15) As per Section 68 of the Companies Act, 2013, the post-buy-back debt-equity ratio should not exceed –
   a) 1
   b) 1.5
   c) 2
   d) 3

16) No offer of buy-back shall be made within a period of reckoned from the date of the closure of the preceding offer of buy-back
   a) 6 months
   b) 1 year
   c) 2 years
   d) 10 months

17) The Paid-up equity shares capital of ABC Ltd. is ₹ 50,00,000 having a face value of ₹ 10 each fully paid-up. Other details:

   General Reserve = ₹ 15,00,000
   Capital Redemption Reserve = ₹ 4,00,000
   Profit & Loss Account = ₹ 1,00,000
   Statutory reserve = ₹ 6,40,000
   Securities Premium = ₹ 1,00,000

   The Board of Directors passed a resolution in a Board meeting to buy back a maximum number of shares as allowed by law. Maximum No. of shares that can be bought back =?
   a) 50,000 shares
   b) 67,000 shares
   c) 1,25,000 shares
   d) 1,67,500 shares

18) N Ltd. had 90,000 equity shares of ₹ 100 each, fully paid up. The company decided to buy back 10% shares at par by the issue of the sufficient number of preference shares. N Ltd. does not have any reserves.
   How many preference shares are required to be issued if new preference shares are to be issued at ₹ 10 each?
   a) 9,00,000 shares
   b) 90,000 shares
   c) 1,00,000 shares
   d) 1,20,000 shares

19) S Ltd. decided to buy back 2,000 equity shares of ₹ 100 each at a premium of 10%. For the purpose of redemption, the company issued 15,000 10% Preference shares of ₹ 10 each at a premium of 20%. At the time of buy-back shares, the amount to be transferred by the company to the Capital Redemption Reserve Account =?
   a) ₹ 20,000
   b) ₹ 50,000
   c) ₹ 1,50,000
   d) ₹ 2,00,000

20) As per section 68(1) of the Companies Act, buy-back of own shares by thecompany, shall not exceed
   a) 25% of the total paid-up capital and free reserves of the company.
   b) 20% of the total paid-up capital and free reserves of the company.
   c) 15% of the total paid-up capital and free reserves of the company.
   d) 10% of the total paid-up capital and free reserves of the company.

21) The companies are permitted to buy-back their own shares out of
   a) Free reserves and Securities premium
   b) Proceeds of the issue of any shares.
   c) Both (a) and (b)
   d) Neither (a) nor (b).

22) When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to
   a) Revenue redemption reserve.
   b) Capital redemption reserve.
   c) Buy-back reserve
   d) Special reserve

23) State which of the following statements is true?
   a) Buy-back is for more than twenty-five per cent of the total paid-upcapital and free reserves of the company.
   b) Partly paid shares cannot be bought back by a company.
   c) Buy-back of equity shares in any financial year shall exceed twenty-fiveper cent of its total paid-up equity capital in that financial year.
   d) Partly paid shares can be bought back by a company.

24) Premium (excess of buy-back price over the par value) paid on buy-backshould be adjusted against
   a) Free reserves.
   b) Securities premium.
   c) Both (a) and (b).
   d) Neither (a) nor (b).

25) Advantages of Buy-back of shares include to
   a) Encourage others to make hostile bid to take over the company.
   b) Decrease promoters holding as the shares which are bought back arecancelled.
   c) Discourage others to make hostile bid to take over the company as thebuy-back will increase the promoters holding.
   d) All of the above.

Answers:

1. (d)
2. (c)
3. (d)
4. (d)
5. (b)
6. (c)
7. (c)
8. (a)
9. (a)
10. (d)
11. (d)
12. (c)
13. (c)
14. (d)
15. (c)
16. (b)
17. (b)

Explanation:

Where buy-back is up to 10% of paid-up capital and free reserves of the company Board resolution is sufficient.

(50,00,000 + 15,00,000 + 1,00,000 + 1,00,000) × 10% = 6,70,000

6,70,000/10 = 67,000

18. (b)

Explanation:

Amount due to equity shareholders on buy-back = 90,000 × 100 × 10% = 9,00,000

No. of shares to be issued = 9,00,000/10 = 90,000

19. (b)
20. (a)
21. (c)
22. (b)
23. (b)
24. (c)
25. (c)

CASH FLOW STATEMENTS

CH 02

MCQs

1. Which of the following are considered as financial activities in the cash flow?
   a) The interest that is paid
   b) The issue of preference share
   c) The redemption of the preference share
   d) All of the above

2. Which of the activities falls under operating activity in the cash flow statement?
   a) The sales of the fixed asset
   b) The interest that is paid on term deposits by a bank
   c) The purchase of the own debenture
   d) The issuing of equity share capital

3. Who are interested in the cash flow statements of a company?
   a) The directors of the company
   b) The shareholders of the company
   c) The potential investors of the company
   d) All of the above

4. What is the purpose of cash flow statement?
   a) The future cash flows and borrowing could be predicted
   b) Different companies can be easily compared with each other
   c) Provide formation regarding a company's solvency, liquidity, and financial stability
   d) All of the above

5. Which of the following activities is investing activity in cash flow?
   a) Sale of investment by non-financial enterprise
   b) Issuing a debenture
   c) Paying back a loan
   d) The raw material purchased with cash

6. Nora Ltd., arrived at a net profit of ₹ 5,00,000 for the year ended March 31, 2023. Depreciation for the year was ₹ 2,00,000. There was a profit of ₹ 50,000 on assets sold which was transferred to Statement of Profit and Loss account. Trade Receivables increased during the year ₹ 40,000 and Trade Payables also increased by ₹ 60,000. Compute the cash flow from operating activities by indirect method.
   a) ₹ 5,50,000
   b) ₹ 5,60,000
   c) ₹ 6,70,000
   d) ₹ 6,60,000

7. In case of other enterprises cash flow arising from interest paid should be classified as cash flow from ________ while dividends and interest received should be stated as cash flow from ____.
   a) Operating activities, financing activities

b) Financing activities, investing activities
c) Investing activities, operating activities
d) None of the above

8. The aggregate cash flows arising from acquisitions and disposals of subsidiaries or other business units should be presented separately and classified as which activities.
a) Operating activities
b) Investing activities
c) Financing activities
d) None of the above

9. Which are examples of non-cash transactions are:
a) the acquisition of assets by assuming directly related liabilities
b) the buyback of shares from open market
c) the acquisition of an enterprise by means of payment through demand draft.
d) the redemption of debentures

10. How to report the effect of changes in exchange rates on cash and cash equivalents held in a foreign currency?
a) Should be reported as a separate notes after financial statements
b) Should be reported as part of the reconciliation of the changes in cash and cash equivalents during the period
c) Should not be reported anywhere
d) Should be reported by CA in special report.

11. Where to show dividends received and dividends paid in cash flow statement.
a) Investing activities; financing activities
b) Financing activities; operating activities
c) Investing activities; operating activities
d) Financing activities; investing activities

12. What will be the cash paid to suppliers and employees if opening and closing inventory is ₹ 1,950 and ₹ 900 respectively. Cost of goods sold is ₹ 26,000 and opening and closing sundry creditors is ₹ 1,890 and ₹ 150 respectively. Also given that administrative and selling expenses were ₹ 910.
a) ₹ 27,690
b) ₹ 27,650
c) ₹ 27,600
d) ₹ 27,620

13. XYZ Ltd. has interest payable at beginning and end of the year for ₹ 100 and ₹ 230 respectively. Company has incurred ₹ 400 as interest expenses for the year. Help Mr A in calculation of Interest paid during the year 2023.
a) ₹ 270
b) ₹ 260
c) ₹ 250
d) ₹ 240

14. ………………………………… are short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

a) Cash
b) Bank
c) Cash equivalents
d) None of the above

15. ……………………………… are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
a) Investing activities
b) Operating activities
c) Financing activities
d) None of above

16. Examples of cash flows from operating activities are:
(i) cash receipts and cash payments of an insurance enterprise for premiums and claims, annuities and other policy benefits
(ii) cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities; and
(iii) cash receipts and payments relating to futures contracts, forward contracts, option contracts and swap contracts when the contracts are held for dealing or trading purposes.

a) Only 1 and 2
b) Only 1 and 3
c) Only 3 and 2
d) Only 1,2 and 3

17. A Ltd is a company engaged in sale and purchase of shares. It holds securities and loan for dealing purpose. Where will be cash arise from such activities to be shown in cash flow?
a) Investing activities
b) Operating activities
c) Financing activities
d) None of above

18. Cash flows arising from capitalised research and development costs and self-constructed fixed assets are part of…………………………
a) Investing activities
b) Operating activities
c) Financing activities
d) None of above

19. An amount of ₹ 3 Lacs was raised from the issue of share capital and a further ₹ 2.5 Lacs was raised from long term borrowings. How to show amount in cash flow statement of MN Ltd?
a) Cash flow from Investing activities
b) Cash flow from Operating activities
c) Cash flow from Financing activities
d) None of above

20. A non-trading company pays ₹4,00,000 to acquire shares in Ranbir Ltd. and receive ₹ 40,000 as dividend after Acquisition. In the Cash flow statement, these transactions will

result in:

a) Cash used in Investing Activities ₹ 3,60,000
b) Cash generated from Investing Activities ₹ 3,60,000
c) Cash used in Investing activities ₹ 4,00,000 & Cash flow from Financing activities ₹ 40,000
d) Cash generated from Financing Activities ₹ 4,00,000

21. M/s Anmol & Sons; A Bamboo pens producing company, purchased machinery for ₹9,00,000. It received a dividend of ₹70,000 on investment in shares. The company also sold an old machine with the book value of ₹79,000 at a loss of ₹10,000 Compute the amount of Cash flow/used from/in Investing Activities.

a) 7,41,000
b) 7,61,000
c) 8,81,000
d) 8,31,000

22. If Net profit is ₹ 35,000 after writing of goodwill ₹ 6,000 & Loss on sale of furniture ₹ 1,000, Cashflow from operating Activities will be:

a) ₹ 35,000
b) ₹ 42,000
c) ₹ 29,000
d) ₹ 28,000

23. From the following data, find the value of building sold during the year:

Particulars	31.3.2023	31.3.2024
Land & building	2,00,000	1,70,000
Capital reserve	Nil	20,000

A piece of land has been sold during the year and the profit on sale has been credited to capital reserve. Depreciation charged on the building during the year is ₹ 5,000; no additions have been made under this head during the year.

a) ₹ 30,000
b) ₹ 50,000
c) ₹ 40,000
d) ₹ 45,000

24. In an organization, provision for taxation as of 31st December 2023 was ₹ 16,000, and on 31st December 2024 ₹ 18,000. Provision for taxation of ₹ 19,000 was made during the year 2024. The tax paid during the year is –

a) ₹ 17,000
b) ₹ 19,000
c) ₹ 2,000
d) ₹ 16,000

25. Some of the account balances of KK Ltd. are as follows in its balance sheet:

	2023 (₹)	2024 (₹)
Share Capital	2,50,000	4,50,000
10% Debentures	2,00,000	1,50,000
Share Premium	25,000	50,000

If the interest paid on debentures was 20,000, the net cash flows from financing activities were:

a) ₹ 1,75,000
b) ₹ 1,55,000
c) ₹ 2,05,000
d) ₹ 2,25,000

26. Investments at the beginning and at the end of the year 2023-24 were ₹ 255 Lakh and ₹ 210 Lakh respectively. During the year 40 percent of original investments were sold at a profit of ₹ 63 Lakh. Amount of cash inflow and outflow respectively from Investments will be:
a) ₹ 102 Lakh and ₹ 57 Lakh
b) ₹ 165 Lakh and ₹ 57 Lakh
c) ₹ 45 Lakh and Nil
d) ₹ 147 Lakh and ₹ 39 Lakh

27. The following information of a non-financial enterprise is given:
(i) Purchase of fixed assets ₹ 40,000;
(ii) Proceeds from the sale of equipment ₹ 35,000;
(iii) Interest received ₹ 3,000;
(iv) Interest paid ₹ 6,000,
(v) Dividend received ₹ 4,000 and
(vi) Dividend paid ₹ 15,000.

Amount of cash from investing activities will be –
a) ₹ 1,000
b) ₹ (4,000)
c) ₹ 2,000
d) ₹ (2,000)

28. QPR Ltd. has the following balances:
Investment at the end of the year 2017-2018 ₹ 85,000, Investment at the end of the year 2018-2019 ₹ 70,000. During the year the company had sold 40% of its original investment at a profit of 50%. What will be the amount of cash inflow and cash outflow from the investment:
a) ₹ 51,000 and ₹ 36,000
b) ₹ 51,000 and ₹ 19,000
c) ₹ 1,21,000 and ₹ 85,000
d) ₹ 1,21,000 and ₹ 19,000

29. Crown Ltd. wants to prepare its cash flow statement. It sold equipment of book value of ₹ 60,000 at a gain of ₹ 8,000. The amount to be reported in its cash flow statement under operating activities is
a) Nil
b) ₹ 8,000
c) ₹ 68,000
d) ₹ 60,000

30. While preparing cash flows statement, an entity (other than a financial institution) should disclose the dividends received from its investment in sharesas
a) operating cash inflow
b) investing cash inflow
c) financing cash inflow

d) cash & cash equivalent

31. XYZ Co. is a financial enterprise. In its cash flow statement, interest paid and dividends received should be
    a) classified as operating cash flows.
    b) classified as financing cash flows.
    c) Not shown in cash flow statement.
    d) classified as investing cash flows.

32. In the cash flow statement, 'cash and cash equivalents' do not include,
    a) Bank balances.
    b) Short-term investments readily convertible into Cash are subject to an insignificant risk of changes in value.
    c) Cash balances.
    d) Loan from bank.

33. While preparing a Cash Flow Statement using the Indirect method as required under AS 3, which of the following will not be deducted from/added to the Net Profit to arrive at the "Cash flow from Operating activities"?
    a) Interest income
    b) Gain on sale of a fixed asset.
    c) Depreciation.
    d) Gain on sale of inventory

34. While preparing cash flow statement, conversion of debt to equity
    a) Should be shown as a financing activity.
    b) Should be shown as an investing activity.
    c) Should not be shown as it is a non-cash transaction
    d) Should not be shown as operating activity.

35. Which of the following would be considered a 'cash-flow item from an "investing" activity'?
    a) Cash outflow to the government for payment of taxes.
    b) Cash outflow to purchase bonds issued by another company.
    c) Cash outflow to shareholders as dividends
    d) Cash outflow to make payment to trade payables.

36. All of the following would be included in a company's operating activities except:
    a) Income tax payments
    b) Collections from customers or Cash payments to suppliers
    c) Dividend payments
    d) Office and selling expenses.

37. Hari Uttam, a stock broking firm, received ₹ 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
    a) Operating Activities.
    b) Investing Activities.
    c) Financing Activities.
    d) Non-cash transaction.

38. As per AS 3 on Cash Flow Statements, cash received by a manufacturingcompany from sale of shares of ABC Company Ltd. should be classified as
    a) Operating activity.
    b) Financing activity.
    c) Investing activity.
    d) Non-cash transaction

Answers:

1. (d)
2. (b)
3. (d)
4. (d)
5. (a)
6. (c)

Explanation:

Cash Flow Statement

Particulars		Amount ₹
Net Profit at the end of the year		5,00,000
Adjustment for Non-Cash and Non-Operating items:		
+ Depreciation for the year	2,00,000	
– Profit on Sale of Assets	(50,000)	(150,000)
Operating Profit before Working Capital changes		6,50,000
– Increase in Trade Receivables	(40,000)	
+ Decrease in Trade Payables	60,000	20,000
Cash Flow from Operating Activities		6,70,000

7. (b)
8. (b)
9. (a)
10. (b)
11. (a)
12. (c)

Explanation:

Particulars		Amount ₹
Cost of sales		26,000
Administrative and selling expenses		910
		26,910
Add: Sundry creditors at the beginning of the year	1,890	
Inventories at the end of the year	900	2,790
		29,700
Less: Sundry creditors at the end of the year	150	
Inventories at the beginning of the year	1,950	2,100
Cash paid to suppliers and employees		27,600

13. (a)
14. (c)

15. (b)
16. (d)
17. (b)
18. (a)
19. (c)
20. (a)
21. (b)
22. (b)
23. (d)
24. (a)
25. (b)
26. (b)
27. (c)
28. (b)
29. (a)
30. (b)
31. (a)
32. (d)
33. (d)
34. (c)
35. (b)
36. (c)
37. (a)
38. (c)

FINANCIAL STATEMENT OF COMPANIES

CH 1

MCQ'S

1. Which of the statements are correct?
   Statement 1:- Dividends cannot be declared except out of profits.
   Statement 2:- Capital cannot be returned to the shareholders by way of dividend.
   a) Statement 1
   b) Statement 2
   c) Statement 1 and 2
   d) None of the given statement

2. ……………… companies that are required to apply Accounting Standards notified under Section 133 of the Companies Act, 2013.
   a) Division I
   b) Division II
   c) Division III
   d) Division IV

3. Who all are not required to make cash flow statement
   a) One Person Company
   b) Small company
   c) Dormant company
   d) All of above

4. Y Ltd. took loan from bank for ₹ 20,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.2023 of ₹ 2,00,000. Determine the amount of loan to be classified under short-term borrowing and long-term borrowing respectively in preparation of Financial Statements of Y Ltd. for year ended 31st March, 2023.
   a) Nil; ₹ 20,00,000
   b) ₹ 4,00,000; ₹ 16,00,000
   c) ₹ 20,00,000; Nil
   d) ₹ 2,00,000; ₹ 18,00,000

5. Ankesh Ltd. is a company that is required to present its financial statements as per the Schedule III. While making ageing of trade receivables what are the first 2 classifications?
   a) Less than 12 months , 12 months – 24 months
   b) Less than 6 months , 6 months – 12 months
   c) Less than 6 months , 6 months – 24 months
   d) None of the above

6. Mukesh Ltd. is a company that is required to present its financial statements as per the Schedule III. While making ageing of trade payables what are the first 2 classifications?
   a) Less than 12 months , 12 months – 24 months
   b) Less than 6 months , 6 months – 12 months
   c) Less than 6 months , 6 months – 24 months
   d) None of the above

7. The balance of reserves after withdrawal of amount for declaration of dividend should not fall below ……………………. as appearing in the latest audited financial statement.
   a) 25% of its paid up share capital
   b) 25% of its authorised share capital
   c) 15% of its paid up share capital
   d) 15% of its authorised share capital

8. Good Writing Ltd. had incurred a loss of ₹ 25 crore during financial year 2023-24 up to the end of second quarter. Board of directors of Good Writing Ltd. has declared interim dividend. The rate of dividend of last 3 years are 10%, 20% and 6% respectively. What is the maximum rate of interim dividend is allowed?
   a) 10%
   b) 20%
   c) 6%
   d) 12%

9. Calculate profit for the period ended on March 31, 2023 of X Ltd. from given information:-

	Figures ₹
Revenue from operations	53,68,000
Other income	47,000
Cost of materials consumed	19,19,000
Change in inventory of finished goods	(1,50,000)
Employee benefit expenses	8,50,000
Finance cost	1,75,000
Provision for tax	4,76,000

   a) ₹ 21,45,000
   b) ₹ 19,95,000
   c) ₹ 18,45,000
   d) ₹ 26,21,000

10. Provision for gratuity is shown in the balance sheet of a company under the head ……………….
   a) Reserves and surplus
   b) Non-current liabilities
   c) Current liabilities
   d) Contingent liabilities

11. State under which head unpaid matured debenture and interest accrued thereon should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
    a) Short Term Borrowings
    b) Money received against share warrants
    c) Other Current Liabilities
    d) Long Term Borrowings

12. State under which head Bank deposits for period of 9 months should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
    a) Cash and Cash Equivalents
    b) Other Non Current Assets
    c) Other Current Assets
    d) None of the above

13. What is the total amount of reserve and surplus if general reserve is ₹ 15,49,100, balance of income statement is ₹ 7,00,000. Company has a balance of preliminary expenses of ₹ 93,100.
    a) ₹ 21,49,100
    b) ₹ 21,46,000
    c) ₹ 21,56,000
    d) ₹ 14,56,000

14. Board of directors declared dividend of 5% on the paid up capital on 2nd April, 2023 for the year ended on March 31, 2023. State under which head dividend should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013
    a) Reserve and Surplus
    b) Current Liabilities
    c) Share Capital
    d) None of Above

15. The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery. How much amount is shown under Long term borrowing?
    a) ₹ 7,20,000
    b) ₹ 7,12,000
    c) ₹ 7,50,000
    d) ₹ 7,12,500

16. State under which head Unclaimed Dividend should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
    a) Other Long term Liabilities
    b) Short Term Provision
    c) Other Expenses
    d) Other Current Liabilities

17. Y Ltd. has incurred total expenses of ₹ 1,24,000. It includes rent, bad debts, provision for doubtful debts and directors' fees. Which of the expense will not form part of Other expenses head as Schedule III of the Companies Act, 2013?
   a) bad debts
   b) provision for doubtful debts
   c) directors' fees
   d) None of above

18. Trade payables as per Schedule III will include:
   a) Dues payable in respect to statutory obligation
   b) Interest accrued on trade payables.
   c) Bills payables.
   d) Bills receivables

19. Securities Premium Account is shown on the liabilities side in the Balance Sheet under the heading:
   a) Reserves and Surplus.
   b) Current Liabilities.
   c) Share Capital.
   d) Share application money pending allotment

20. "Fixed assets held for sale" will be classified in the company's balance sheet as
   a) Current asset
   b) Non-current asset
   c) Capital work- in- progress
   d) Deferred tax assets

21. Current maturities of long- term debt will come under
   a) Current Liabilities.
   b) Short term borrowings.
   c) Long term borrowings.
   d) Short term provisions

22. Declaration of dividends for current year is made after providing for
   a) Depreciation of past years only.
   b) Depreciation on assets for the current year & arrears of depreciation of past years (if any).
   c) Depreciation on current year only and by forgoing arrears of depreciation of past years.
   d) Excluding current year depreciation

23. Financial Statements as per Section 2(40) of the Companies Act, 2013, does not include which of the following:
   a) a balance sheet as at the end of the financial year,
   b) 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;
c) cash flow statement for the financial year;
d) None of the above

24. Financial statements of a company should be prepared as per which Schedule of The Companies Act, 2013.
   a) Schedule I
   b) Schedule II
   c) Schedule III
   d) None of the above

25. Contingent Liabilities are shown under which head in Books of Accounts:
   a) In P&L Statement after the other Expense Head
   b) In Balance Sheet after the Long Term Liability
   c) In Balance Sheet after the Short Term Liability
   d) the contingent liabilities are shown as a footnote in the balance sheet.

Answers:

1. (c)
2. (a)
3. (d)
4. (b)
5. (b)
6. (a)
7. (c)
8. (d)
9. (a)

Explanation:

	Figures ₹
Revenue from operations	53,68,000
Other income	47,000
	54,15,000
Cost of materials consumed	19,19,000
Change in inventory of finished goods	(1,50,000)
Employee benefit expenses	8,50,000
Finance cost	1,75,000
Provision for tax	4,76,000
Profit for the year	21,45,000

10. (b)
11. (c)
12. (a)
13. (c)

14. (d)
15. (d)
16. (d)
17. (d)
18. (c)
19. (a)
20. (a)
21. (b)
22. (b)
23. (d)
24. (c)
25. (d)

FRAMEWORK FOR PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

MCQ'S

1. All of the following are components of financial statements except?
   a) Balance sheet
   b) Statement of Profit and loss
   c) Human responsibility report
   d) Social responsibility report.

2. Framework for preparation and presentation of financial statements suggests that the financial statements should observe?
   a) Relevance
   b) Understandability
   c) Reliability
   d) All the three

3. Which of the assumption is not considered as fundamental accounting assumption?
   a) Going Concern
   b) Accrual
   c) Reliability
   d) Consistency

4. Which of the following are underlying assumptions of financial statements?
   a) Relevance and reliability.
   b) Going concern and Accrual basis.
   c) Financial capital maintenance and physical capital maintenance.
   d) Prudence and conservatism.

5. The 'going concern' concept assumes that?
   a) The business can continue in operational existence for the foreseeable future.
   b) The business cannot continue in operational existence for the foreseeable future.
   c) The business is continuing to be profitable.
   d) The business cannot continue if it is not able to earn profits.

6. Liabilities are recorded at the undiscounted amount of cash expected to be paid on settlement of liability in the normal course of business under?
   a) Present value
   b) Realizable value
   c) Current cost
   d) Fair value

7. An item that meets the definition of an element of financial statements should be recognised in the financial statements if?
   a) It is probable that any future economic benefit associated with the item will flow to the enterprise.
   b) Item has a cost or value that can be measured with reliability.
   c) Both a and b
   d) It is probable that no future economic benefit associated with the item will flow to the enterprise.

8. Two principal qualitative characteristics of financial statements are?
   a) Understandability and materiality
   b) Relevance and Reliability
   c) Relevance and materiality
   d) Comparability and materiality

9. Which of the following is not an element of Financial Statements?
   a) Assets
   b) Trial Balance
   c) Equity & Liabilities
   d) Income & Expense

10. Mr. A purchased a machine on 1st January, 2016 at ₹ 7,00,000. As on 1.1.2021, Mr. A found that it would cost ₹ 25,00,000 to purchase that machine. Mr. X also took loan from a bank as on 1st January, 2016 for ₹ 5,00,000 @ 18% p.a. repayable at the end of 15th year together with interest. As per historical cost, what amount of liability & asset will be recorded in the books of accounts?
    a) 5,00,000 and 7,00,000
    b) 18,50,000 and 25,00,000
    c) 7,00,000 and 5,00,000
    d) 25,00,000 and 18,50,000

11. An accounting policy can be changed if the change is required
    a. By statute or accounting standard
    b. For more appropriate presentation of financial statements
    c. Both (a) and (b)
    d. By statute as well as accounting standards.

12. Value of equity may change due to
    a. Contribution from or Distribution to equity participants
    b. Income earned
    c. expenses incurred
    d. All the three.

Answers:

1. (c)
2. (d)
3. (c)
4. (b)
5. (a)
6. (b)
7. (c)
8. (b)
9. (b)
10. (a)
11. (c)
12. (d)

INTERNAL RECONSTRUCTION

CH 4

MCQ'S

1. Increase in value of Liability under Internal Reconstruction is debited to ____________.
   a) Profit & Loss A/c
   b) Goodwill A/c
   c) Capital Reduction A/c
   d) None.

2. Share of ₹ 100 each (paid up value ₹ 90 each) are reduced to share of nominal value of ₹ 90 each in a scheme of reconstruction.
   a) There will be credit of ₹ 10 per share to capital reduction A/c
   b) There will be credit of ₹ 90 per share to capital reduction A/c
   c) There will be credit of ₹ 100 per share to capital reduction A/c
   d) There will be no credit to capital reduction A/c

3. Share of ₹ 100 each paid up value are reduced to share of nominal & paid up value of ₹ 10 each in a scheme of reconstruction.
   a) There will be credit of ₹ 10 per share to capital reduction A/c
   b) There will be credit of ₹ 90 per share to capital reduction A/c
   c) There will be credit of ₹ 100 per share to capital reduction A/c
   d) There will be no credit to capital reduction A/c

4. The existing 1000 shares of ₹ 100 each are altered to 10000 shares of ₹ 10 each. This is known as
   a) Consolidation
   b) Sub-division
   c) Conversion in Stock
   d) Surrender

5. The existing 1000 shares of ₹ 1 each are altered to 100 shares of ₹ 10 each. This is known as
   a) Consolidation
   b) Sub-division
   c) Conversion in Stock
   d) Surrender

6. When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called
   a) Internal reconstruction with liquidation
   b) Internal reconstruction without liquidation of the company
   c) External reconstruction
   d) None of the above.

7. The accumulated losses under scheme of internal reconstruction are writtenoff against
   a) Capital Reduction account
   b) Share Capital account
   c) Shareholders' account
   d) Reserve and surplus.

8. A process of reconstruction, which is carried out without liquidating thecompany and forming a new one is called
   a) Internal reconstruction.
   b) External reconstruction.
   c) Amalgamation in the nature of merger.
   d) Amalgamation in the nature of purchase.

9. Reconstruction is a process by which affairs of a company are reorganized by
   a) Revaluation of assets and Reassessment of liabilities.
   b) Writing off the losses already suffered by reducing the paid up value ofshares and/or varying the rights attached to different classes of shares.
   c) Both (a) and (b).
   d) None of the above.

10. For reduction of the share capital, the permission has to be sought from
    a) Court.
    b) Controller.
    c) State government.
    d) Shareholders.

11. In case of internal reconstruction
    a) Only one company is liquidated.
    b) Two or more companies are liquidated.
    c) No company is liquidated.
    d) Two companies amalgamated.

12. The Capital reduction means reduction in ___________ value of shares.
    a) Authorized capital
    b) Called up capital
    c) Uncalled capital
    d) Paid-up value

13. The Shareholders can surrender shares for _______ or ___________ .
    a) Re-issue, Cancellation
    b) Fresh Issue, Redemption
    c) Fresh Issue, cancellation
    d) none of the above

14. The fictitious debit balances are to be transferred to __________ Account.
    a) External Reconstruction
    b) Security Premium
    c) Share Capital
    d) Capital Reduction

15. The difference in revaluation of assets is to be transferred to ________ Account.
    a) Realisation
    b) Capital Reduction
    c) Security Premium
    d) Capital Reserve

16. A scheme of _________ or _________ mean the scheme having same effect.
    a) Capital Reduction or Internal Reconstruction
    b) Capital Reduction or External reconstruction
    c) None of the above
    d) Capital reserve or External reconstruction

17. The full balance of capital is to be debited, if _______value is reduced.
    a) Face
    b) Market
    c) Both of a & b
    d) none of the above

18. The expenses for forming and implementing scheme should be debited to ___________ .
    a) security premium
    b) share capital
    c) External reconstruction
    d) capital reduction

19. The objective of reconstruction is to write off __________ .
    a) profit
    b) accumulated losses
    c) Assets
    d) none of the above

20. In ___________ , no new company is formed.
    a) External reconstruction
    b) Amalgamation
    c) Internal reconstruction
    d) none of the above

21. Appreciation in the value of land & building is recorded on ______ side of Capital Reduction Account.
    a) credit
    b) debit
    c) both of a & b
    d) none of the above

22. Any credit balance on Capital Reduction Account after writing off losses is transferred to_____ Account.
    a) Reserve & Surplus
    b) Profit & Loss
    c) Share Capital
    d) Capital Reserve

23. Payment for contingent liability is debited to __________ A/c.
    a) Capital Reduction
    b) Bank
    c) Share Capital
    d) None of the above

24. Fictitious assets are written off to __________ A/c.
    a) Capital Reduction
    b) Profit & Loss A/c
    c) Goodwill
    d) Land & Building

25. Reconstruction expenses are debited to _________ A/c.
    a) Cash Account
    b) Goodwill Account
    c) Profit & Loss A/c
    d) Capital Reduction A/c

26. Appreciation in land and building is credited to _________ A/c.
    a) Capital Reduction A/c
    b) Profit & Loss A/c
    c) Cash Account
    d) Goodwill Account

27. XYZ Ltd. had on 31st December, 2023; 80,000 equity shares at ₹ 10 each. It was decided to reduce shares to ₹ 8 each. The reduction is __________.
    a) 1,60,000
    b) 6,40,000
    c) 2,00,000
    d) 1,50,000

28. Creditors of the company are ₹ 50,00,000 one creditor for ₹ 20,00,000 decided to forego 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction. The amount transferred to capital reduction is __________.
    a) 8,00,000
    b) 20,00,000
    c) 12,00,000
    d) 50,00,000

29. The preference shareholders agree to forego arrears of preference dividend of ₹ 72,000. The amount transferred to Capital Reduction Account is __________ .
    a) Nil
    b) 72,000
    c) 36,000
    d) 70,000

30. Creditors are ₹ 3,00,000. They are given the option to either accept 50% of their claim in cash in full settlement or to convert their claim into equity shares of ₹ 10 each. Creditors of ₹ 2,00,000 opt for shares in satisfaction of the claim. Capital reduction Account is credited by __________ .
    a) 1,00,000
    b) 1,50,000
    c) 50,000
    d) 2,00,000

31. Investment costing of ₹ 24,000 given to Bank for bank overdraft of 16,800. The capital reduction is debited by _______.
    a) 24,000
    b) 8,000
    c) 7,200
    d) 16,800

32. Y Ltd. has 8,000 equity shares of ₹ 100 each fully paid. Each share is sub-divided into 10 equity shares of ₹ 10 each. The number of shares after sub-division will be _______.
    a) 8,000
    b) 80,000
    c) 75,000
    d) 60,000

33. Provision for taxation is ₹ 1,00,000. The tax liability of the company is settled at ₹ 80,000 & it is paid immediately. Amount credited to capital reduction is ___________ .
    a) 80,000
    b) 1,00,000
    c) 20,000
    d) 60,000

34. 6% debentures of ₹ 100 each amounting ₹ 1,00,000 to be converted into such number of 8% debentures of ₹ 50 each as to generate the same amount of interest as before. The amount of 8% debentures will be _________ .
    a) 1,00,000
    b) 25,000
    c) 75,000
    d) 1,20,000

35. On internal reconstruction, assets are written off except _____________.
    a) Land & Building
    b) Goodwill
    c) Preliminary expenses
    d) Profit & Loss Account

Answers:

1. (c)
2. (d)
3. (b)
4. (b)
5. (a)
6. (b)
7. (a)
8. (a)
9. (c)
10. (a)
11. (c)
12. (d)
13. (a)
14. (d)
15. (b)
16. (a)
17. (a)
18. (d)
19. (b)
20. (c)
21. (a)
22. (d)
23. (a)
24. (a)
25. (d)
26. (a)
27. (a)
28. (a)
29. (a)
30. (c)
31. (c)
32. (b)
33. (c)
34. (c)
35. (a)

INTRODUCTION TO ACCOUNTING STANDARDS

CH 10

MCQ'S

1. Accounting Standards for non-corporate entities in India are issued by:
   a. Central Govt.
   b. State Govt.
   c. Institute of Chartered Accountants of India.
   d. MCA

2. Accounting Standards:
   a. Harmonise accounting policies and eliminate the non-comparability of financial statements.
   b. Improve the reliability of financial statements.
   c. Both (a) and (b).
   d. manipulate the data for the management.

3. It is essential to standardize the accounting principles and policies in order to ensure
   a. Transparency.
   b. Consistency.
   c. Comparability.
   d. All the above.

4. Which committee is responsible for approval of accounting standards and their modification for the purpose of applicability to companies?
   a. NFRA.
   b. MCA.
   c. Central Government Advisory Committee.
   d. IASB

5. Global Standards facilitate
   a. Cross border flow of money.
   b. Comparability of financial statements.
   c. Uniformity and Transparency of financial statements.
   d. All the three.

6. IFRS stands for:
   a) International Financial Reporting standards
   b) International Financial Reporting statements
   c) Indian Financial Reporting standards
   d) Indian Financial Reporting statements

7. Accounting Standards cover the aspect of_______?
   a) Recognition of events and transactions in the financial transactions.
   b) Measurement of events and transactions in the financial transactions.
   c) Presentation & disclosure of events and transactions in the financial transactions.
   d) All of the above.

8. Additional guidance given in Ind AS over and above what is given in IFRS are called?
   a) Carve-outs
   b) Carve-ins
   c) Clarifications
   d) Carve Clarifications

Answers:

1. (c)
2. (c)
3. (d)
4. (b)
5. (d)
6. (a)
7. (d)
8. (b)