

Model Question Paper

Accounting & Finance (SMB108)

• Answer all 72 questions.

• Marks are indicated against each question.

Total Marks : 100

1. “Anticipate no future profits but provide all the future losses” is based on

- (a) Cost concept
- (b) Consistency concept
- (c) Conservatism concept
- (d) Business entity concept
- (e) Accounting period concept. **(1 mark)**

2. Which of the following events/transactions is **not** recorded in the books of account of a business?

- (a) Loss of stock by fire
- (b) Sale of an asset on credit
- (c) Purchase of a new asset in exchange of an old asset
- (d) Withdrawal of goods by the proprietor for personal consumption
- (e) Receipt of interest by proprietor on bank fixed deposit held jointly with spouse. **(1 mark)**

3. The expenses and incomes pertaining to full trading period are taken to the Profit and Loss account of a business, irrespective of their actual payment or receipt. This is in recognition of

- (a) Duality concept
- (b) Accrual concept
- (c) Time period concept
- (d) Going concern concept
- (e) Business entity concept. **(1 mark)**

4. Which of the following is **not** a use of fund?

- (a) Incurring losses
- (b) Acquiring assets
- (c) Paying dividends
- (d) Incurring expenses
- (e) Incurring liabilities. **(1 mark)**

5. Which of the following financial statements is prepared as of a particular date?

- (a) Balance sheet
- (b) Cash flow statement
- (c) Profit and loss account
- (d) Income and expenditure statement
- (e) Profit and loss appropriation account. **(1 mark)**

6. Which of the following is **not** a current asset?

- (a) Inventories
- (b) Bills receivable
- (c) Prepaid expenses
- (d) Accounts receivable
- (e) Income received in advance. **(1 mark)**

7. Which among the following statements can be used to assess the liquidity of a company?

- (a) Balance sheet
- (b) Profit and loss account
- (c) Manufacturing account
- (d) Bank reconciliation statement
- (e) Profit and loss appropriation account. **(1 mark)**

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8. Revenue Reserve represents

- (a) Bad debts realized
- (b) Profit on sale of fixed assets.
- (c) Gain out of revaluation of assets
- (d) Premium on issue of debentures/shares
- (e) Accumulated earnings from the profits. **(1 mark)**

9. Which of the following items is **not** listed in the schedule for ‘reserve and surplus’?

- (a) Sinking funds
- (b) Capital reserve
- (c) Share premium account
- (d) Capital redemption reserve
- (e) Provision for tax, dividends etc. **(1 mark)**

10. Who among the following is **not** an internal user of Financial Statements?

- (a) Partners
- (b) Officers
- (c) Investors
- (d) Managers
- (e) Board of Directors. **(1 mark)**

11. Which of the followings is/are **false**?

- I. Cash basis of revenue recognition considers the revenue as realized when sale is completed.
- II. Accrual basis for revenue recognition considers the revenue as realized when sale is completed.
- III. Financial statements of companies are normally prepared for a period of twelve months. This period is known as calendar year.
- IV. Financial statements are normally prepared for a period of twelve months. This period is known as accounting year.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (III) above
- (d) Both (II) and (IV) above
- (e) (I), (II) and (III) above. **(1 mark)**

12. When applied to Balance-Sheet the convention of conservatism results in

- (a) Overstatement of capital
- (b) Understatement of assets
- (c) Understatement of liabilities and provisions
- (d) Understatement of assets and liabilities and provisions
- (e) Understatement of assets, liabilities and provisions and capital. **(1 mark)**

13. At the beginning of the current year, the owner's equity of a firm is Rs.1,80,000. During the year, the assets and liabilities of the firm have increased by Rs.1,80,000 and Rs.2,20,000 respectively. Owner's equity at the end of the year will be

- (a) Rs.1,40,000
- (b) Rs.1,80,000
- (c) Rs.2,20,000
- (d) Rs.3,60,000
- (e) Rs.4,00,000. **(2marks)**

14. Which of the following is an example of capital expenditure?

- (a) Loss of stock by fire
- (b) Insolvency of a debtor
- (c) Loss due to embezzlement by the Manager
- (d) Interest on borrowing during the period of construction works
- (e) Compensation paid for breach of a contract for supply of goods. **(1 mark)**

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15. The total of all the current assets of Intelligent Limited is Rs. 3,00,000. The following information is also available from the trial balance of the company.

Sundry debtors Rs. 30,500
 Current liabilities Rs. 16,400
 Provision for taxation Rs. 12,000
 Cash & bank balance Rs. 30,000
 Bills receivable Rs. 25,000
 Office typewriter Rs. 39,000

The only other current asset not included in the information above is closing stock. Its value must be

- (a) Rs.1,98,000
- (b) Rs.2,02,000
- (c) Rs.2,04,500
- (d) Rs.2,14,500
- (e) Rs.2,41,500. **(2marks)**

16. If there is any short fall in profit and loss appropriation account of a company, then the short fall is to

be shown in the balance sheet as a

- (a) Note to the Balance-sheet
- (b) Deduction from the owner's equity
- (c) Deduction from the reserves & surpluses
- (d) Profit & loss A/c on the asset side of the Balance-sheet
- (e) Profit & loss A/c balance on the liability side of the Balance-sheet. **(1 mark)**

17. Materiality in accounting is decided

- (a) By the size of an item
- (b) By size of the business firm
- (c) At the sole discretion of the accountant
- (d) By the physical volume of the transaction
- (e) By the knowledge as to whether an individual item is having a significant influence on financial statement. **(1 mark)**

18. Which of the following is **not** an intangible asset?

- (a) Patents
- (b) Goodwill
- (c) Trade mark
- (d) Secret process
- (e) Accounts receivable. **(1 mark)**

19. According to Companies Act, assets are to be classified in the following order

- (a) i. Long term investments ii. Current assets
iii. Fixed assets iv. Misc. expenditure
- (b) i. Current assets ii. Long term investments
iii. Fixed assets iv. Misc. expenditure
- (c) i. Long term investments ii. Fixed assets
iii. Current assets iv. Misc. expenditure
- (d) i. Fixed assets ii. Long term investments
iii. Current assets iv. Misc. expenditure
- (e) i. Fixed assets ii. Current assets
iii. Long term investments iv. Misc. expenditure.

(1 mark)

20. Which of the following branches of accounting provides information that helps planning, control and decision making?

- (a) Tax Accounting
- (b) Cost Accounting
- (c) Inflation Accounting
- (d) Financial Accounting
- (e) Management Accounting. **(1 mark)**

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21. Which of the following is **not** a prior period item?

- (a) Difference arising because of non-accounting of TDS for last year
- (b) Depreciation for last year revised in current year due to application of wrong rate
- (c) Interest for last year which was not paid due to lack of proper details paid this year
- (d) Difference arising in current year due to wrong stock valuation of an item in last year
- (e) Arrears pertaining to last year on account of revision of wage structure paid to workers in current year. **(1 mark)**

22. The periodical total of discount column on receipts side of a triple column cash book is entered on the

- (a) Debit side of discount account
- (b) Credit side of discount account
- (c) Credit side of debtor's account
- (d) Credit side of creditor's account
- (e) Credit side of provision for discount account. **(1 mark)**

23. According to cash book of Mr. X there was a favorable balance of Rs.1,050 in his bank account. But the pass book showed an overdraft balance. On a scrutiny of the transactions, the following discrepancies were revealed.

- i. A cheque payment of Rs.1,230 has been entered in the cash book as Rs.1,320.
- ii. X's personal cheque of Rs.2,200 received from his uncle was wrongly debited in cash book of his business.
- iii. Discount received from suppliers of Rs.100 had been wrongly entered in the bank column of cash

book.

The overdraft balance as per bank pass book is

- (a) Rs. 960
- (b) Rs.1,160
- (c) Rs.1,170
- (d) Rs.3,260
- (e) Rs.3,440. **(2marks)**

24. Consider the following for Alvin Co. for the year 2009-10:

Cost of goods available for sale Rs.1,00,000

Total sales Rs. 80,000

Opening stock of goods Rs. 20,000

Gross profit margin 25%

Closing stock of goods for the year 2009-10 was

- (a) Rs.20,000
- (b) Rs.36,000
- (c) Rs.40,000
- (d) Rs.60,000
- (e) Rs.80,000. **(2marks)**

25. M/s ABC Ltd. has the practice of creating provision for doubtful debts @ 5% on debtors. The balance of provision for doubtful debts on April 01, 2009 and March 31, 2010 is Rs.30,000 and Rs.40,000, respectively. If the amount collected from debtors is Rs.56,00,000, credit sales during the year 2009-2010 are

- (a) Rs.54,00,000
- (b) Rs.55,90,000
- (c) Rs.56,00,000
- (d) Rs.56,10,000
- (e) Rs.58,00,000. **(2marks)**

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26. M/s.Swapna Enterprises introduced the imprest system of petty cash book, the amount of imprest being Rs.1,000. The petty cash transactions during the month of September 2010 are as under:

Particulars Amount (Rs.)

Stamps 145

Conveyance 186

Repairs 228

Stationery 154

Other office expenses 93

The amount of cash received on October 01, 2010 to make up the imprest balance was

- (a) Rs. 194
- (b) Rs. 422
- (c) Rs. 578
- (d) Rs. 806
- (e) Rs.1,000. **(1 mark)**

27. Consider the following data pertaining to purchases made by Zodiac Ltd., a dealer in electronic goods, for the month of September 2010:

Date Particulars No. of units

Rate per

unit

Rs.

Trade

Discount

September 01 Black & White TVs 50 3,000 10%

Colour TVs 10 6,000 10%

September 09 Tape Recorders 10 1,000 10%

Two-in-one 10 1,500 10%

September 19 Audio Cassettes 100 30 5%

On September 22, 2010, the company purchased from Indian Stationers on credit for office use 10 dozens of carbon papers at the rate of Rs.35 per dozen and 10 dozens of ball pens at the rate of Rs.25 per dozen.

The total amount debited to purchases account for the month of September 2010, was

- (a) Rs.2,14,200
- (b) Rs.2,14,350
- (c) Rs.2,14,950
- (d) Rs.2,38,000
- (e) Rs.2,38,600. **(2marks)**

28. Which of the following transactions of a business is **not** recorded in journal proper?

- (a) Opening entries
- (b) Transfer entries
- (c) Adjusting entries
- (d) Rectification entries
- (e) Purchase of goods on credit. **(1 mark)**

29. Which of the following is **not** disclosed by a Trial Balance ?

- (a) Omission to record a transaction.
- (b) Debit or credit posted twice in the ledger
- (c) Omission to post an amount in an account
- (d) Wrong amount debited or credited to an account
- (e) Balance of an account wrongly listed in the trial balance. **(1 mark)**

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30. Mr. Mohan sold goods to Mr. Raju for Rs.900. The catalogue price of the goods is Rs.1,000. Mr. Mohan also offered a further discount of Rs.50 for spot payment of cash. Mr. Raju took delivery of goods by paying cash.

The journal entry to record the transaction in the books of Mr. Mohan is

- (a) Cash a/c – Dr. Rs.850
Trade discount a/c – Dr. Rs.100
Cash discount a/c – Dr. Rs. 50
To Sales a/c Rs.1,000
- (b) Cash a/c – Dr. Rs.850
Discount a/c – Dr. Rs.150
To Sales a/c Rs.1,000
- (c) Cash a/c - Dr. Rs.850
Discount a/c – Dr. Rs. 50
To Sales a/c Rs. 900
- (d) Cash a/c – Dr. Rs.850
To Sales a/c Rs. 850
- (e) Mr. Raju's a/c – Dr. Rs.850
To Sales a/c Rs. 850. **(2marks)**

31. Consider the following data pertaining to Dolphin Ltd. for the month of September 2010:

Particulars Rs.

Opening stock 30,000
Closing stock 40,000
Purchases 5,60,000
Returns outward 15,000
Returns inward 20,000
Carriage inward 5,000

If the gross profit is 20% of net sales, the gross sales for the month of September 2010 was

- (a) Rs.5,40,000
- (b) Rs.6,48,000
- (c) Rs.6,68,750
- (d) Rs.6,95,000
- (e) Rs.7,05,000. **(2marks)**

32. Which of the following journal entry is passed while placing a purchase order of Rs.10,000 with Mr.Shah?

- (a) Purchases account Dr. Rs.10,000
To Shah's account Rs.10,000
- (b) Purchases account Dr. Rs.10,000
To Cash account Rs.10,000
- (c) Cash account Dr. Rs.10,000
To Shah's account Rs.10,000
- (d) Shah's account Dr. Rs.10,000

To Cash account Rs.10,000

(e) No entry is passed. **(1 mark)**

33. The cost of goods sold does **not** include

- (a) Excise duty
- (b) Indirect labor
- (c) Power and light
- (d) Storage expenses
- (e) Administrative expenses. **(1 mark)**

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34. Consider the following data pertaining to Wren Ltd. for the year 2009-2010:

Particulars Rs.

Provision for doubtful debts as on April 1, 2009 4,000

Sundry debtors as on March 31, 2010 1,50,000

Bad debts to be written off 10,000

If a provision equal to 5% is to be **created** on the debtors' balances, the charge against profit and loss account for the year ended March 31, 2010 is

- (a) Rs. 3,500
- (b) Rs. 7,000
- (c) Rs.11,000
- (d) Rs.13,000
- (e) Rs.17,500. **(2marks)**

35. The following information is extracted from the books of Leo Ltd. , a trading concern, as on March 31, 2010:

Rs.

Stock as on April 01, 2009 – 80,000

Accounts payable as on April 01, 2009 – 30,000

Accounts payable as on March 31, 2010 – 40,000

Amount paid to creditors during the year – 1,50,000

Sales – 2,00,000

It is noticed that goods worth Rs.30,000 were destroyed due to fire. Against this, the insurance company accepted a claim of Rs.20,000. The company sells goods at cost plus 33 1

3

% . The value of

closing inventory, after taking into account the above transactions is,

- (a) Rs. 10,000
- (b) Rs. 30,000
- (c) Rs. 60,000
- (d) Rs.1,00,000
- (e) Rs.1,10,000. **(2marks)**

36. Consider the following data pertaining to Universe Ltd. as on March 31, 2010:

- Total sundry debtors as per Trial Balance Rs.40,600.
- Bad debts identified after the preparation of Trial Balance Rs.600.
- Provision for bad debts to be created @ 5% on sundry debtors.
- Provision for discount on sundry debtors to be created @ 2%.

The amount of provision for discount on sundry debtors created for the period ended March 31, 2010 was

- (a) Rs. 760
- (b) Rs. 771
- (c) Rs. 800
- (d) Rs. 812
- (e) Rs.2,000. **(2marks)**

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37. The following information are obtained from the financial statements of Alpha Ltd for the year ending March 2010.

Particulars Rs.

Opening stock 2000

Closing stock 2500

Purchases 15000

Cost of sales 13000
Sales (credit) 22000
Opening Sundry debtors 4500
Closing Sundry debtors 5000
The average collection period of the company is
(a) 75 days
(b) 79 days
(c) 83 days
(d) 133 days
(e) 140 days. **(2marks)**

38. Consider the following data pertaining to a company for the year 2009-2010:

Opening balance of sundry debtors Rs. 45,000
Net Credit sales Rs.4,25,000
Cash sales Rs. 20,000
Cash collected from debtors Rs.4,00,000
Closing balance of sundry debtors Rs. 50,000
The bad debts of the company during the year are
(a) Rs.20,000
(b) Rs.25,000
(c) Rs.30,000
(d) Rs.35,000
(e) Rs.40,000. **(2marks)**

39. The present book value of an asset of a company is Rs.2,04,120. The company has charged depreciation at the rate of 10% under straight line method for last 3 years. The cost of the asset before charging depreciation was

(a) Rs.2,91,600
(b) Rs.2,80,000
(c) Rs.2,55,150
(d) Rs.2,52,000
(e) Rs.2,26,800. **(2marks)**

40. Which of the following is a financial asset?

(a) Bond
(b) Patent
(c) Goodwill
(d) Inventory
(e) Real Estate. **(1 mark)**

41. Returns inward of Rs.2,310 is wrongly entered in the returns outward account as Rs.1,230. The impact of this on the Gross Profit is

(a) Overstatement by Rs.1,080
(b) Overstatement by Rs.1,230
(c) Overstatement by Rs.2,310
(d) Overstatement by Rs.3,540
(e) Understatement by Rs.2,310. **(2marks)**

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42. Consider the following data pertaining to M/s. Ramu Enterprises as on March 31, 2010:

Particulars Rs.
Credit sales 1,40,000
Credit purchases 20,000
Cash sales 20,000
Cash purchases 70,000
Wages paid 5,000
Salaries paid 2,000
Returns inward 3,000
Returns outward 2,000
Carriage inward 1,000
Carriage outward 1,000
Printing and stationery 600
Gas, water and fuel 2,000
Raw materials destroyed by fire 2,000

Additional Information:

Particulars As on April 01, 2009 As on March 31, 2010

Rs. Rs.

Inventory 27,000 40,000

Outstanding wages 500 700

Outstanding salaries 400 300

Gross profit of M/s.Ramu Enterprises for the year ended March 31, 2010 was

(a) Rs.73,800

(b) Rs.74,800

(c) Rs.75,200

(d) Rs.75,800

(e) Rs.76,200. **(2marks)**

43. Consider the following data pertaining to Mr. Kantilal for the year ended March 31, 2010:

Particulars Rs.

Sales 5,00,000

Purchases 4,50,000

Opening stock 30,000

Salaries and wages 10,000

Printing and stationery 3,000

Rent paid 2,000

Insurance 4,000

Carriage inward 3,000

Carriage outward 2,500

Returns inward 10,000

Returns outward 15,000

Closing stock 10,000

The manager of Mr. Kantilal is entitled to a commission of 5% on profit after charging his commission. The commission payable to the manager for the year 2009-2010 is

(a) Rs.500

(b) Rs.525

(c) Rs.619

(d) Rs.650

(e) Rs.700. **(2marks)**

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44. The accountant of M/s.Abhay Enterprises reported net profit of Rs.5,90,000 for the year 2009-2010.

Subsequently, the following omissions were noticed:

- The company has invested Rs.1,00,000 in 13% debentures and the interest for the year 2009-10 is not accounted for.
- Salary to manager is still outstanding for the month of March, 2010 and is not taken while preparing profit and loss account. The manager draws an annual salary of Rs.18,000.
- Ms. Suman returned goods worth Rs.29,000 which is not recorded in the books of account.

However, the physical closing stock includes the returned goods.

The above omissions were duly considered. The profit of M/s.Abhay Enterprises after giving effect to the above is

(a) Rs.5,56,000

(b) Rs.5,72,500

(c) Rs.5,75,500

(d) Rs.5,92,000

(e) Rs.6,30,000. **(2marks)**

45. The following balances are extracted from the books of M/s.Universe Ltd. as on March 31, 2010:

Particulars Rs. Particulars Rs.

Called-up share capital 5,00,000 Plant and machinery 2,20,000

Land and building 4,90,000 Investments 60,000

Secured loans 3,00,000 Calls in arrears 30,000

Term loan from Union Bank 1,00,000 Capital reserve 90,000

Sundry creditors 90,000 Profit and loss account

Sundry debtors 1,20,000 (credit balance) 50,000

Closing Stock 96,000 Outstanding expenses 500
Loans to employees 50,000 Insurance premium
Provision for doubtful debts 10,000 paid in advance 1,200
Interest received in advance 700 Cash 4,000
Bank balance 40,000 Preliminary expenses 30,000
The total of the liabilities side of the balance sheet is

- (a) Rs.11,00,200
- (b) Rs.11,01,200
- (c) Rs.11,01,900
- (d) Rs.11,31,200
- (e) Rs.11,41,200. **(2marks)**

46. Notional rent charged on business premises owned by the proprietor is an example of

- (a) Imputed cost
- (b) Committed cost
- (c) Programmed cost
- (d) Replacement cost
- (e) Discretionary cost. **(1 mark)**

47. In a given situation if a product is not produced, the company can save on the salary of workers to the tune of Rs.1,00,000. In this case, the salary of the workers is

- (a) Imputed cost
- (b) Avoidable cost
- (c) Opportunity cost
- (d) Unavoidable cost
- (e) Replacement cost. **(1 mark)**

48. The term used to describe the assignment of direct costs to a particular cost object is

- (a) Cost pricing
- (b) Cost tracing
- (c) Cost allocation
- (d) Cost assignment
- (e) Cost accumulation. **(1 mark)**

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49. Which of the following is a period cost?

- (a) Power cost
- (b) Repair cost
- (c) Direct labor cost
- (d) Indirect material cost
- (e) Research and development costs. **(1 mark)**

50. Gujarat Transport Ltd. is running 5 buses between two towns, which are 60 km apart. Seating capacity of each bus is 60 passengers. The following particulars are obtained from the records for the month of September 2010:

Particulars Rs.

- i. Wages of drivers, conductors and cleaners 27,000
- ii. Salaries of office and supervisory staff 10,000
- iii. Diesel oil and other oil 42,500
- iv. Repairs and maintenance 9,900
- v. Taxes, insurance etc. 32,000
- vi. Depreciation 42,000
- vii. Interest and other charges 31,000

The seating capacity utilized was 60%. All the five buses ran on all days of the month. Each bus had made one round trip daily. The cost per passenger km is

- (a) Re. 0.15
- (b) Re. 0.30
- (c) Re. 0.50
- (d) Re. 0.65
- (e) Re. 0.75. **(2marks)**

51. The current sales price of a company is Rs.90 per unit and an operating income of Rs.3,60,000. Variable costs are expected to increase from Rs.72 to Rs.75 per unit. Fixed costs of Rs.3,00,000 will not change. How many additional sales units are required in order to maintain the operating income at the existing level?

- (a) 2,800
- (b) 7,333
- (c) 3,333
- (d) 4,000
- (e) 8,000. **(2marks)**

52. The costs incurred for the product of a company are as follows:

Particulars Rs.

Direct materials 65,200

Direct wages 53,300

Direct expenses 56,500

Variable manufacturing overheads 37,200

Fixed administrative overheads 27,600

Fixed selling & distribution overheads 18,700

The prime cost of the product is

- (a) Rs.1,18,500
- (b) Rs.1,55,700
- (c) Rs.1,75,000
- (d) Rs.2,12,200
- (e) Rs.2,58,500. **(2marks)**

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53. Dipti Ltd. uses job costing system and has furnished the following cost data for Job No.3A:

Particulars Rs.

Direct material 5,00,000

Direct wages 4,50,000

Profit 3,40,750

Selling & distribution overhead 2,35,000

Administrative overhead 2,93,750

Factory overhead 2,25,000

The cost of sales for job no.3A is

- (a) Rs.14,68,750
- (b) Rs.17,03,750
- (c) Rs.17,13,750
- (d) Rs.20,44,500
- (e) Rs.20,54,500. **(2marks)**

54. Which of the following is an overhead cost?

- (a) Income tax
- (b) Subscriptions
- (c) Electricity expenses
- (d) Direct material costs
- (e) Penal interests on loans. **(1 mark)**

55. The break-even point of Pintoo Ltd. is 5,000 units at a sales price of Rs.40 per unit, variable cost of Rs.20 per unit, and total fixed costs of Rs.1,00,000. If the company sells 1,000 additional units, by how much will its profit increase?

- (a) Rs.12,000
- (b) Rs.15,000
- (c) Rs.20,000
- (d) Rs.25,000
- (e) Rs.37,000. **(2marks)**

56. Which of the following functions of the financial system facilitates conversion of investments in stocks, bonds, debentures etc into money?

- (a) Risk function
- (b) Policy function
- (c) Savings function
- (d) Payment function
- (e) Liquidity function. **(1 mark)**

57. The objective of financial management to increase the wealth of the shareholders means to

- (a) Increase the current assets of the firm
- (b) Increase the cash balance of the company
- (c) Increase the physical assets owned by the firm

- (d) Increase the market value of the shares of the firm
- (e) Increase the total number of outstanding shares of the company. **(1 mark)**

58. Which of the following is related to the control function of the financial manager?

- (a) Interaction with the bankers for arranging a short-term loan
- (b) Comparing the costs and benefits of different sources of finance
- (c) Assessing the costs and benefits of a project under consideration
- (d) Deciding the optimum quantity of raw materials to be ordered for procurement
- (e) Analysis of variance between the targeted costs and actual costs incurred and reporting on the same. **(1 mark)**

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59. Which of the following statements is **false**?

- (a) A sole proprietorship firm is inexpensive to set up
- (b) The maximum number of members of a private limited company is 50
- (c) Death of one of the partners may result in the dissolution of the partnership firm
- (d) The ability to raise funds is limited for a partnership firm, whereas for a public company it is substantial
- (e) The minimum number of persons required to form a private company is 2, whereas it is 3 in case of a public company. **(1 mark)**

60. Which of the following is a disadvantage of bought-out-deals?

- (a) Sponsor may exploit the situation
- (b) It is a very time consuming procedure
- (c) It is difficult to convince a wholesale investor
- (d) The issue expenses are more than that of a public issue
- (e) The promoters of the company do not get the funds immediately. **(1 mark)**

61. Which of the following situations lead to the increase in volatility in the call money market?

- (a) Reduction in cash reserve ratio
- (b) Entry of the financial institutions (FIs) into the market
- (c) Prepayment of term loans by a large number of borrowers
- (d) Decrease in the demand for loanable funds in the economy
- (e) Payment of large amount of advance taxes by the banks and FIs. **(1 mark)**

62. Which of the following levels of ADR issue require(s) the registration of the issuing company with the SEC?

- I. ADR Level-I.
- II. ADR Level-II.
- III. ADR Level-III.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above. **(1 mark)**

63. Mr. Varma wishes to purchase a 91 day T-bill of face value Rs.100, maturing after 50 days. If, on maturity, he wishes to earn a yield of 9.5%, the purchase price for Mr. Varma should be

- (a) Rs.88.50
- (b) Rs.92.21
- (c) Rs.97.22
- (d) Rs.98.72
- (e) Rs.99.03. **(2marks)**

64. Which of the following is **not** a money market instrument?

- (a) Call money
- (b) Debentures
- (c) Treasury bills
- (d) Commercial paper
- (e) Certificate of deposits. **(1 mark)**

65. Which of the following companies generally provide risk capital to the technology oriented and highly risky businesses?

- (a) Commercial banks
- (b) Insurance companies
- (c) Lease finance companies
- (d) Hire purchase finance companies

(e) Venture capital funding companies. **(1 mark)**

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66. Which of the following is/are **not true** with reference to the different functions of Reserve Bank of India (RBI)?

I. The bank rate is the rate at which the RBI issues its 365 day T-Bills.

II. The Cash Reserve Ratio is the cash that banks deposit with Reserve Bank as a proportion of their deposits.

III. Statutory Liquidity Ratio is the reserve in addition to the Cash Reserve Ratio which the banks are required to maintain in the form of government securities, specified bonds and approved securities.

(a) Only (I) above

(b) Only (II) above

(c) Only (III) above

(d) Both (I) and (II) above

(e) Both (II) and (III) above. **(1 mark)**

67. Novelty Industries is establishing a sinking fund to redeem Rs.50 lakh bond issue, which matures in 15 years. How much do they have to put into the fund at the end of each year to accumulate the Rs.50 lakh, assuming the funds are compounded at 6.82% quarterly?

(a) Rs.1,76,875

(b) Rs.1,87,987

(c) Rs.1,98,973

(d) Rs.2,09,873

(e) Rs.2,13,456. **(2marks)**

68. Which of the following will decrease with an increase in the interest rate?

(a) Capital Recovery Factor

(b) Future Value Interest Factor

(c) Future Value Interest Factor For Annuity

(d) Present Value Interest Factor for a perpetual annuity

(e) Inverse of Present Value Interest Factor For Annuity. **(1 mark)**

69. In common size analysis the items in the income statement are expressed as percentage of

(a) Net sales

(b) Total assets

(c) Current assets

(d) Total expenses

(e) Current liabilities. **(1 mark)**

70. Consider the following data extracted from the financial statements of M/S Indhra Pvt. Ltd.,

Equity share capital (Rs.10 each) Rs.100,00,000

Reserves & surplus Rs. 10,00,000

Secured loans @ 14% Rs. 50,00,000

Unsecured loans @ 10.5% Rs. 20,00,000

Fixed Assets Rs. 60,00,000

Investments Rs. 10,00,000

Operating Profit Rs. 50,00,000

Tax rate 50%

Market Price per share Rs.80

The P/E ratio of the company is?

(a) 25.50

(b) 29.00

(c) 39.12

(d) 42.56

(e) 48.56. **(2marks)**

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71. Given total debt-equity ratio = 5:4; total assets = Rs.4,500; short-term debt = Rs.600 and total debt consists only of long-term debt and short-term debt, the long-term debt is equal to

(a) Rs.1,567

(b) Rs.1,900

(c) Rs.2,167

(d) Rs.2,500

(e) Rs.2,833. **(2marks)**

72. Overtrading means

- (a) The firm has been experiencing low turnover of working capital
- (b) The firm has disproportionately high level of cash with respect to total assets
- (c) The firm has disproportionately high level of receivables with respect to total assets
- (d) The firm has disproportionately low amount of working capital with respect to the level of sales
- (e) The firm has disproportionately high amount of working capital with respect to the level of sales. (1 mark)

END OF QUESTION PAPER

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Suggested Answers

Accounting & Finance (SMB108)

ANSWER REASON

1. C The idea behind concept of conservatism is that recognition of revenue requires better evidence than recognition of expenses. This principle emphasizes that revenues are to be recognized only when they are reasonably certain and expenses are to be recognized as soon as they are reasonably possible.
2. E The receipt of interest by proprietor on bank fixed deposit held jointly with spouse cannot be entered in the books of account of the business. The other items i.e. withdrawal of goods by the proprietor for personal consumption, sale of an asset on credit, purchase of net asset in exchange of old asset and loss of stock by fire are all recorded in the books of account.
3. B The expenses and incomes for the full trading period are taken to the Profit and Loss account of a business, irrespective of their payment or receipt is in recognition of accrual concept. The concepts in other alternatives are incorrect because duality concept (a) says that every transaction has dual aspect and explains that $\text{Capital} + \text{outside liability} = \text{Assets}$. According to the Time period concept (c) the income or loss of a business is measured periodically for a specified interval of time usually one year and it does not speak about how expenses and incomes are accounted for the entire period irrespective of the cash involvement. The Going concern concept (d), which necessitates distinction between expenditure that will render benefit over a long period and that whose benefit will be exhausted within the accounting period. According to the Business entity concept (e) the transactions of the business are treated distinctly from that of the owners of the business and it explains that all the expenses and incomes of business are to be accounted for distinctly from that of the owners. This is the basis for fundamental equation. Thus, the correct answer is (b).
4. E Incurring liability is a source of fund but not a use of fund. Acquiring assets, incurring expenses, incurring losses and paying dividends are all uses of funds.
5. A Balance sheet is prepared as on a particular date whereas profit and loss account, cash flow statement, income and expenditure account and profit and loss appropriation account are prepared for a particular period.
6. E Current assets include cash and cash equivalents, inventories, accounts receivable, bills receivable, and prepaid expenses. Income received in advance is a liability.
7. A Balance sheet can be used to assess the liquidity of a company. The profit and loss account shows the profit or loss of the company but does not help in assessing the liquidity of the company. The profit and loss appropriation account gives the details of appropriations and the retained earnings. The bank reconciliation statement is prepared only to reconcile the differences in bank balance as per cashbook and pass book. The manufacturing account shows the cost of goods produced. Hence the answer is (a).
8. E Revenue reserve is created out of the net profit made by a firm. Bad debt realized and profit on sale of fixed assets appear in P&L A/c, premium on issue of debentures etc. and revaluation gains are coming under capital reserve. Hence answer (e) the correct one.
9. E Reserve and Surplus are profits which have been retained in the firm. Revenue reserve represents accumulated retained earnings created out of profits from normal business operations. These take several forms such as General Reserve, Investment allowances reserve, capital redemption reserve, dividend equalization reserve etc. Capital reserve arises out of gains which are not related to the normal business operations. Provision for tax, dividend etc. comes under current liabilities and provisions and hence not included under reserve and surplus.
10. C Board of Directors, Partners, Managers and Officers are internal users. An investor is an external User.
11. C Financial statements are normally prepared for a period of twelve months. This period is known

as accounting year. : Cash basis of revenue recognizes revenue as being realized only when cash is received. Therefore statements (I) and (III) are incorrect.

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12. B The concept of conservatism involves understating gains and values and overstating losses and liabilities. Hence when applied to Balance-Sheet the convention of conservatism results in understatement of assets. Option (b) is correct.

13. A According to the duality concept, sources of fund must be equal to uses of fund. From this equality approach, the fundamental accounting equation can be defined as

Owners' equity + Outside liability = Assets

During the year, owners' equity will be changed due to the change of assets and liabilities.

Asset are increased by Rs.1,80,000

Liabilities are increased by Rs 2,20,000

Hence, owner's equity will decrease by Rs. 40,000

So, at the end of the year the owners' equity will be equal to opening balance of owners' equity less change of owners' equity during the year. i.e. Rs.1,80,000 - Rs.40,000 = Rs.1,40,000.

14. D Interest on borrowing during the period of construction works is a capital expenditure. The other expenditures stated in alternatives (a) loss of stock by fire (b) Insolvency of a debtor (c) loss due to embezzlement of cash by the manager and (e) compensation paid for breach of a contract for supply of goods are of revenue nature and are not the answers. Alternative (d) is the correct answer.

15. D Total of all current assets = Rs. 3,00,000/-

Total of current assets excluding stock = Sundry Debtors + Bills Receivable + Cash & Bank

Balance = 30,500 + 25,000 + 30,000 = Rs. 85,500

Value of closing stock = Rs. 3,00,000 – Rs. 85,500 = Rs. 2,14,500.

16. D In case of loss ,the company law requires it to be shown under Misc. expenditure A/c on the asset side of the Balance-sheet and hence answer (d) is the right one.

17. E Materiality in accounting is decided by the knowledge as to whether an individual item is having a significant influence on financial statement or not. Thus, (e) is the correct answer.

18. E An accounts receivable is not an intangible asset. It is the amount that the business has to receive from its debtors. The other assets mentioned in alternatives a, b, c, and e – patents, goodwill, trademark and secret processes are intangible assets. Hence, the correct answer is (e).

19. D According to Companies Act, assets are to be classified in the order of i. Fixed assets ii. Investments iii. Current assets, loans and advances iv. Misc. expenditure.

20. E Management accounting is the branch of accounting which primarily deals with processing and presenting data for internal users. (e) is the correct answer.

21. E Arrears for last year paid to workers in current year because of revision in wage structure is not a prior period item (e). As per Accounting Standard –5 income or expense which arises in current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods is considered as prior period item. So items as per option (a),(b), (c) and (d) are prior period items.

22. A The periodical total of discount column on receipts side of a triple column cash book is recorded to the debit side of discount account. Receipts side of a triple column cash book indicates the debit side and the debit in case of a nominal account is an expenditure and the discount entered on the receipt side of triple column cash book indicates the discount allowed and posted to the debit side of discount account in the ledger. Thus, (a) is the correct answer. Since it is not an income it is not credit to discount account and alternative (b) is not the correct answer. The periodical total is not credited to debtor's account as only the individual amount of discount is credited to respective debtor's account and not the periodical total is credited to debtor's account and alternative (c) is not the correct answer. Since it is an expenditure being the amount of discount allowed to the debtors, it does not find any place in creditors accounts and alternative (d) is the incorrect answer It is not the discount to be credited to provision for discount account on debtors (e) and it is not the correct answer. Thus, alternative (a) is the correct answer.

23. A Balance as per cash book Rs.1050 add Rs.100 being discount wrongly credited to bank A/c add Rs.90 being excess amount of cheque credited to bank A/c less Rs.2200 being wrongly debited in cash book(1050+100+90)- 2200= 960 (OD).

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24. C

Particulars Rs.

Cost of goods available sale 1,00,000

Less : Cost of goods sold
 Sale Rs.80,000
 Less : Gross profit (25%) Rs.20,000 60,000
 Closing stock of goods 40,000

25. E Dr.. Sundry Debtors Account Cr.
 Date Particulars Rs. Date Particulars Rs.

April 01,
 2009

To Opening balance
 (30,000/5%) 6,00,000 2009-2010 By Cash 56,00,000
 2009-2010 To credit sales
 (Balance figure) 58,00,000 March 31,
 2010

By Closing
 balance 8,00,000
 64,00,000 64,00,000

26. D

Particulars Amount
 (Rs.)

Amount

(Rs.)

Petty cash 1,000

Less : Stamps 145

Conveyance 186

Repairs 228

Stationery 154

Other office expenses 93 806

194

Amount reimbursed 806

1,000

27. B Purchases Day Book

Date Particulars Details

(Rs.)

Total

(Rs.)

Sept. 01 50 Black & White T.V. @ Rs.3,000 each

10 Colour T.V. @ Rs.6,000 each

1,50,000

60,000

2,10,000

Less : Trade discount @ 10% 21,000 1,89,000

Sept. 09 10 pieces of Tape recorder @ Rs.1,000 each 10,000

10 pieces of Two-in-one @ Rs.1,500 each 15,000

25,000

Less : Trade discount @ 10% 2,500 22,500

Sept. 19 100 pieces of Audio Cassettes @ Rs.30 each 3,000

Less : Trade discount @ 5% 150 2,850

2,14,350

The purchase of stationery is not a part of purchase of goods and it is to be debited to stationery account

28. E Purchase of goods on credit is not entered in Journal proper. It is recorded in the purchase book. All other entries are entered in the Journal Proper.

29. A Omission to record a transaction altogether will not be disclosed by a trial balance. All other errors will be revealed. So option (a) is the answer.

30. C Whenever trade discount is given, the same will not be separately disclosed and the sales will be shown at net figure.

However, cash discount should be taken to discount account. Hence cash account should be debited with actual cash received (Rs.850), discount account should be debited with cash discount allowed (Rs.50) and sales should be credited with catalogue price less trade discount (i.e Rs.900).

31. D Cost of goods sold = Opening stock + net purchases + direct expenses – closing stock
= Rs.30,000 + (Rs.5,60,000 – Rs.15,000) + Rs.5,000 – Rs.40,000 = Rs.5,40,000

Gross profit = 20% of net sales

Net sales = cost of good sold / 80% = Rs.6,75,000

Sales = Net sales + sales returns = Rs.6,75,000 + Rs.20,000 = Rs.6,95,000

32. E Placing of a purchase order do not require any journal entry to be passed. (e) is the correct answer.

33. E Indirect labour, power & light, storage expenses, excise duty are part of cost of goods sold. Administrative overhead is appearing in the Profit & loss A/c to arrive at the net profit. Sales less cost of goods sold = Gross profit. Gross profit minus adm .cost, selling and distribution cost =net profit.

34. D Particulars Rs.

Opening Provision 4,000

Bad debts to be written off 10,000

Shortfall of provision 6,000

Provision required 5% of Rs.1,40,000 (Rs.1,50,000 – Rs.10,000) 7,000

Charge against profit and loss account 13,000

35. C Dr. Accounts Payable Cr.

Date Particulars Rs. Date Particulars Rs.

2009-2010 To Cash 1,50,000 Apr 01, 09 By Opening balance 30,000

Mar 31, 10 To Closing

ance

40,000 2009-2010 By Purchases

(Balancing figure)

1,60,000

1,90,000 1,90,000

Dr. Stock A/c Cr.

Date Particulars Rs. Date Particulars Rs.

Apr 01, 2009 To Opening

balance

80,000 2009-

2010

By Cost of goods sold* 1,50,000

2009-2010 To Purchases 1,60,000 By Goods lost 30,000

March 31,

2010

By Closing balance

(Balancing figure) 60,000

2,40,000 2,40,000

*Cost of goods sold = Rs.2,00,000 × 34

= Rs.1,50,000

36. A Debtors as per trail balance Rs.40,600

Less : Bad debts written-off Rs. 600

Rs.40,000

Less : Provision for bad debts@ 5% Rs. 2,000

Rs.38,000

Provision for discount on sundry debtors will be 2 Rs.38,000 Rs.760

100

× =

37. B Average debtors = (4500+5000)/2 = 4750

Credit sales =22000 Amount of daily credit sales=22000/365

Average collection period = (4750x365)/22000 = 79 days

38. A

Opening balance of Sundry debtors Rs. 45,000

Add : Credit sales Rs.4,25,000

Rs.4,70,000

Less : Cash collected Rs.4,00,000

Rs. 70,000

Less : Closing balance of sundry debtors Rs. 50,000

Bad debts Rs. 20,000

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39. A The depreciated value of the asset Rs.2,04,120

Depreciation rate – 10%

Depreciation charged under straight line method for 3 years

Cost of asset before depreciation =

(1310%)

Rs.2,04,120

– ×

=

0.7

Rs.2,04,120 = Rs.2,91,600.

The cost of the asset before depreciation = Rs.2,91,600.

40. A Financial asset represents a claim on a real asset .Among the choices, only bond is a financial asset.

41. D Return inwards is an expense and return outwards is an income (cost savings). If the returns inward of Rs.2,310 is wrongly entered in the returns outward account as Rs.1,230, income (cost savings) will be increased by Rs.3,540 i.e., Rs.2,310 + Rs.1,230. It ultimately results in an increase of gross profit by Rs.3,540. The alternatives a, b, c and e are not the correct resultant amounts. The effect of the mistake is an increase in gross profit and not a decrease of gross profit.

42. D Books of Ramu Enterprises

Dr. Trading Account for the period ending March 31, 2003 Cr.

Particulars Rs. Rs. Particulars Rs. Rs.

To Opening stock 27,000 By Sales :

To Purchases Cash 20,000

Cash 70,000 Credit 1,40,000

Credit 20,000 1,60,000

90,000 (–) Returns inward 3,000 1,57,000

(–) Goods lost 2,000 By Closing stock 40,000

(–) Returns outward (–) 2,000 86,000

To Wages 5,000

(+) Outstanding as

on March 31, 2003 700

5,700

(–) Outstanding as

on April 01, 2002 500 5,200

To Carriage inward 1,000

To Gas, water, fuel 2,000

To Gross Profit 75,800

1,97,000 1,97,000

43. A Trading account and Profit and loss account for the year ended March 31, 2010.

Dr. Cr.

Particulars Rs. Rs. Particulars Rs.

To Opening stock 30,000 By Sales 5,00,000

To Purchases 4,50,000 Less : Returns

inward 10,000 4,90,000

Less : Returns

outward 15,000 4,35,000

To Salaries and wages 10,000

To Printing and stationery 3,000

To Rent 2,000

To Insurance 4,000

To Carriage inward 3,000

To Carriage outward 2,500

To Manager's commission 500 By Closing stock 10,000

To Net Profit 10,000
 5,00,000 5,00,000
 Profit before charging Manager's commission = Rs. 10,500
 Manager's Commission =Rs. 10,500 5 Rs.500
 105
 × =

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44. B Particulars Rs.

Profit as reported by the accountant 5,90,000
 Add : Interest on investments 13,000
 Less : Manager's salary 1,500
 Less : Sales returns 29,000
 Profit after considering all aspects 5,72,500

45. B Balance Sheet of Universe Ltd. as on March 31, 2010

Liabilities Rs. Assets Rs.

Share capital 5,00,000 Land & building 4,90,000
 Less call in arrears 30,000 4,70,000 Plant and machinery 2,20,000
 Capital reserve 90,000 Investments 60,000
 P & L A/c 50,000 Sundry debtors 1,20,000
 Secured loans 3,00,000 Less provision for
 doubtful debts 10,000
 1,10,000
 Loan from Syndicate Bank 1,00,000 Stock 96,000
 Sundry creditors 90,000 Loans to employees 50,000
 Outstanding expenses 500 Cash 4,000
 Interest received in advance 700 Bank 40,000
 Insurance premium paid in
 advance
 1,200
 Preliminary expenses 30,000
 11,01,200 11,01,200

46. A The costs which are not incurred but appeared in cost accounts only are called imputed costs. e.g. The notional rent charged on business premises owned by the proprietor is imputed cost.

47. B Avoidable costs are those costs that can be avoided by discounting that product line or department to which the cost was directly associated. Here, since the salary of workers do not have to be paid if the product is discontinued, it is avoidable cost

48. C The term used to describe the assignment of direct costs to the particular cost object is cost allocation. It is not the cost tracing, cost assignment, cost accumulation and cost absorption. Therefore, (c) is correct.

49. E All research, administrative, and selling costs are treated as period costs.

(i) Direct labor costs and Direct material costs are product or inventorial costs.

(ii) Indirect materials costs are treated as manufacturing overhead costs.

(iii) Power costs and repair costs are treated as product cost

The correct answer is (e).

50. B Total kilometer covered in September 2010

= 5 buses × 60 km × 2 × 30 days = 18,000 km

Total passenger kilometer covered in September 2010

= 18,000 km × 60 passengers × 60% = 6,48,000 passenger km

Total operating cost during September 2010 = Rs. 1,94,400

The cost per passenger km = Rs. 1,94,400 ÷ 6,48,000 passenger km

= Re.0.30 per passenger km.

51. B Projected unit sales = (Fixed costs + Target operating income) ÷ Unit contribution margin.

Projected unit sales =

(Rs.3,00,000 + Rs.3,60,000) ÷ Rs.15.00 = 44,000 units. Current sales units = (Rs.3,00,000 +

Rs.3,60,000) ÷ Rs.18 =

36,667 units. Increase in units: 44,000 – 36,667 = 7,333.

52. C Prime Cost = Direct materials + Direct wages + Direct expenses

Therefore prime cost = Rs.65,200 + Rs.53,300 + Rs.56,500 = Rs.1,75,000

53. B Particulars Rs.

Direct material 5,00,000

Direct wages 4,50,000

Prime cost 9,50,000

Factory overhead cost (50% on direct wages) 2,25,000

Works cost 11,75,000

Administrative overhead cost (25% on works cost) 2,93,750

Cost of production 14,68,750

Selling & distribution overhead (20% on works cost) 2,35,000

Cost of sales 17,03,750

Profit (16.67% on sales or 20% on cost of sales) 3,40,750

Sales value 20,44,500

54. C Direct material costs are variable cost. Income tax, penal interest on loans and subscriptions are considered as finance costs. These are not recorded in cost accounting. Electricity expenses are an item of cost accounting and it is classified as overhead cost. Thus, option (c) is the correct answer.

55. C Unit contribution margin is Rs. 40 - Rs.20 = Rs.20. Additional profit will be Rs.20,000 (1000 x Rs.20). After break even, profit is equal to the unit contribution margin multiplied by the number of units sold beyond break-even.

56. E The liquidity function of the financial system facilitates conversion of investment in stocks, bonds etc. into money. Savings function leads to the flow of savings from the savers to the consumers of an economy while payment function facilitates the payment of dues in an easy and convenient way. Risk function provides the required tools for the protection against life, health and income risks whereas policy function enables the regulating authorities of a country to take suitable policy measures to influence the policy variables in the macro-economy.

57. D According to the objective of financial management to increase the wealth of the shareholders means to increase in the market value of the shares issued by the firm. Increasing the physical assets or current assets of the company may not provide adequate returns to the shareholders, if it is done through incremental borrowing. Increasing cash balance imparts more liquidity to a company but decreases the returns on investments. Increase in the total number of outstanding shares of the company does not make any impact on the total value of the firm.

58. E Alternative (e) is the control function. Alternative (b) involves partly the 'funds mobilization function and partly the 'risk- return tradeoff' function. Alternative (c) is a part of the 'mobilization of funds'/'financing' function of the finance manager. Alternative (a) and (d) are also related with the 'deployment of funds' function.

59. E A group of persons working towards common objective is a company and the minimum number of persons required to set up a private company is 2 and for a public company it is 7. Hence, (e) is not true. The simplest form of business organization is sole-proprietorship firm. As it is owned by a single person and free from governmental regulations it is very inexpensive to set up. Hence, (a) is true. According to Sec 3(1)(iii) of the Companies Act, 1956, a private company is one, which cannot have members more than 50. Hence, (b) is true. A partnership firm is formed by two or more persons by agreement. The life of the firm depends on the agreement and the death or withdrawal of a partner may result in the dissolution of the firm. Hence, (c) is true. . As a public limited company can raise equity capital through issuance of shares to the public its ability to raise funds is substantial. Hence, (d) is true.

60. A Since, in a bought-out-deal, the shares are initially offered to the sponsor and the sponsor has the discretion to offload the shares to the public at an appropriate time in future as per the discretion of the sponsor. The sponsor may exploit the situation where the promoter of the company may be in the dire need for funds by offering a substantially low price and may also misuse its discretion to divest the shares in favor of the public. All these facts may affect the interests of the promoters of the company. The points as stated in the other options are not correct with respect to bought out deals.

61. E The volatility in the call money market increases with the reduction of the liquidity in the market. It generally comes down with the following reasons:

- Increase in cash reserve ratio (CRR)
- Larger amount borrowed by several borrowers following an increase in demand for the

loanable funds

- Withdrawal of funds by the banks and financial institutions suddenly to meet their respective corporate requirements

Payment of a large amount of advance taxes by the banks and FIs will lead to the reduction in liquidity in the system thereby increases the volatility in the call money market. Hence, the option (e) is the answer.

62. C ADR Level-III is used for raising fresh capital through public offering in the US Capital Markets. The company has to be registered with the SEC and comply with the listing requirements of AMEX/NYSE while following the US GAAP.

63. D

: Yield is calculated as

$$\frac{d}{365}$$

P

$$F - P \times$$

—

Where, F is face value

P is purchase price

d is the duration/maturity period

In the given case, yield = $\frac{100 - P}{365}$

$$= \frac{50}{365}$$

P

P

—

×

If yield = 9.5%, P is calculated as,

$$\frac{100 - P}{365}$$

$$= \frac{50}{365}$$

P

P

—

$$\times = 0.095$$

P

$$100 - P$$

=

$$0.095 \times \frac{50}{365}$$

$$= \frac{4.75}{365}$$

×

P

$$100 - P$$

$$= 0.013$$

$$1.013 P = 100 \Rightarrow P = \frac{100}{1.013}$$

$$= 98.72$$

$$P = \text{Rs. } 98.72.$$

64. B Debentures are treated as capital market instruments as their tenure will be more than 1 year. Hence the answer is (b). All others are money market instruments.

65. E Venture capital funding companies generally provide risk capital to the technology oriented and highly risky businesses. No other entities, as mentioned in the other options, does the same.

66. A The bank rate is the rate at which the RBI rediscounts the first class commercial bills of exchange and not at which the RBI issues its 365 days T-Bills. Statement (I) is not true The Cash Reserve Ratio is the cash that banks deposit with reserve bank as a proportion of their deposits. It is a true statement. . Statutory Liquidity Ratio is the reserve in **addition** to the Cash Reserve Ratio where the banks are required to maintained specified reserves in the form of government securities, specified bonds and approved securities. Statement (III) is true. Hence option (a) is the

answer.

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67. C First find out the effective annual rate (EAR)

$$EAR = r_e = (1 + r_n/m)^m - 1$$

Where,

r_n – nominal rate of interest, i.e., 6.82%

m – number of times compounding done = 4

$$\therefore r_e = (1 + 0.0682/4)^4 - 1 = 0.06996 \text{ or } 0.07 = 7\%$$

Now, let the sinking fund payment be A.

$$\therefore \text{Rs.}50,00,000 = A \times FVIFA_{(7\%,15)}$$

$$A = 50,00,000 / 25.129 = \text{Rs.}1,98,973.$$

Rs.1,98,973 has to be paid into the sinking fund at the end of each year. Hence (c) is the answer

68. D

Present value factor for a perpetual annuity = $\frac{1}{i}$

$\frac{1}{i}$

.

Hence it decreases with an increase in the interest rate. Hence (d) is the correct option.

Future Value Interest Factor = $(1 + i)^n$

Hence it increases with increase in the interest rate.

Future Value Interest Factor For Annuity (FVIFA) =

$$\frac{(1 + i)^n - 1}{i}$$

$\frac{(1 + i)^n - 1}{i}$

+ –

. FVIFA also increases with increase in the interest rate.

69. A In common size analysis the items in the income statement are expressed as percentage of net sales. Hence (a) is the answer.

70. C Operating profit Rs.50,00,000

Less : Interest on :

Secured loans @ 14% Rs.7,00,000

Unsecured loans @ 10.5% Rs.2,10,000 Rs.9,10,000

PBT Rs.40,90,000

Less tax @ 50% Rs.20,45,000

PAT Rs.20,45,000

No of shares = 10,00,000

EPS = $\frac{20,45,000}{10,00,000} = 2.045$

$\frac{20,45,000}{10,00,000}$

PAT Rs

no of shares

= =

P/E = 80

2.045

Market price

EPS

= = 39.12.

71. B

Equity

Total debt =

4

5 Adding 1 to both sides of the equation we get:

Equity

Total debt + 1 =

4

5 + 1 or

Equity

Total debt + equity

=

4

5 + 4

or

Equity

Total asset

=

4

9

From above, Equity =

9

Total asset × 4

=

9

4500 × 4

= Rs.2,000

Now, total assets = Total debt + equity = Rs.4,500

or Total debt + 2000 = 4500

or Total debt = 4500 – 2000

= Rs.2,500

Long term debt = Total debt – Short term debt = 2500 – 600

= Rs.1,900.

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72. D Overtrading means that the firm has disproportionately low level of working capital with respect to the level of sales. To define it as a state in which the firm has disproportionately high level of working capital with respect to sales or a disproportionately high level of receivables with respect to total assets or a disproportionately high level of cash with respect to total assets or low turnover of working capital is incorrect.

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