

Accountancy

Analysis Of Financial Statements

Q1. Loss on sale of plant and machinery should be written off against _____.

1 Mark

- A Share premium B Depreciation fund account C Sales account
D Profit & Loss account

Ans: B Depreciation fund account

2. Depreciation fund account

Explanation:

A loss on sale is the amount of money that is lost by a company when selling a non-inventory asset for more than its value. The sale price of the car is below its original cost, so there will be a loss on sale. Such loss on sale of assets are written off in profit and loss A/c.

Q2. Bills Receivable A/c is _____.

1 Mark

- A Personal A/c B Real A/c C Nominal D None of the above

Ans: A Personal A/c

1. Personal A/c

Explanation:

There are mainly three types of account: Real, Personal and Nominal accounts. Personal accounts are classified into three subcategories: Natural, Artificial and Representative. Bills Receivable and Bills Payable are personal accounts. Both these accounts represent debtors and creditors of a particular entity.

The rule of personal account is Debit the receiver, Credit the giver. Suppose when Bills Receivable is issued, its debited because that represents debtor from whom money is receivable. In a way the entity has given those debtors a benefit i.e. credit so as per the rule Bills Receivable A/c is debited. Hence, bills receivable is a personal a/c.

Q3. The analysis of financial statement by a shareholder is an example of:

1 Mark

- A External Analysis B Internal Analysis C Vertical Analysis D Horizontal Analysis

Ans: A External Analysis

1. External Analysis

Q4. Risk-aversion of an investor can be measured by_____.

1 Mark

- A Market Rate of Return B Risk-free Rate of Return C Portfolio Return
D None of the above

Ans: D None of the above

4. None of the above

Explanation:

Risk aversion means the tendency of a person to avoid a decision/investment when there is risk involved. Risk aversion is a personal trait of a person. Risk-aversion of an investor cannot be measured by market rate of return, risk free rate of return or portfolio profit.

Q5. On sale of old furniture, owner's equity would _____.

1 Mark

- A Increase B Decrease C Remain unchanged
D May or may not change

Ans: D May or may not change

4. May or may not change

Explanation:

The sale of furniture may result in a profit that will increase the owner's equity or a loss that will decrease it. It may also happen that the furniture is sold at its book value so that neither profit nor loss occurs and the owner's equity remains same.

Q6. Withdrawals by the proprietor would_____.

1 Mark

- A** Reduce both assets and owner's equity **B** Reduce assets and increase liabilities
C Reduce owner's equity and increase liability **D** No change

Ans: A Reduce both assets and owner's equity

1. Reduce both assets and owner's equity

Explanation:

Withdrawals by the proprietor results in decrease in cash and decrease in capital. Decrease in cash means decrease in assets and decrease in capital means decrease in liabilities.

Q7. What is Not Incorrect About Common Size Statements?

1 Mark

- A** Common size statements are useful, both, in intra-firm comparisons over different years
B This analysis is also known as Horizontal Analysis **C** The numbers are brought to common base
D

Percentage calculated can be easily compared with the results of corresponding percentages of the previous year

Ans: B This analysis is also known as Horizontal Analysis

2. This analysis is also known as Horizontal Analysis

Q8. Evaluation of capital budgeting proposals is based on cash flows because_____.

1 Mark

- A** Cash flows are easy to calculate **B** Cash flows are suggested by SEBI
C Cash is more important than profit **D** None of the above

Ans: C Cash is more important than profit

3. Cash is more important than profit

Explanation:

Capital budgeting is based on cash flows because there is discounting and other factors used which can be done only on cash. Moreover, cash can be spent and not profit. Cash is more important than profit as the company has to focus on many costs. As in the long run the company will succeed if it focuses more on cash flow statement.

Q9. Mr. Bhandari purchased a car for Rs. 50,000, making a down payment of Rs. 10,000 and signing a Rs. 40,000 bill payable due in 60 days. As a result of this transaction _____.

1 Mark

- A** Total assets increased by Rs. 50,000 **B** Total liabilities increased by Rs. 40,000
C Total assets increased by Rs. 40,000
D Total assets increased by Rs. 40,000 with corresponding increase in liabilities by Rs. 40,000

Ans: D Total assets increased by Rs. 40,000 with corresponding increase in liabilities by Rs. 40,000

4. Total assets increased by Rs. 40,000 with corresponding increase in liabilities by Rs. 40,000

Explanation:

Mr. Bhandari purchased a car for Rs. 50,000, making a down payment of Rs. 10,000 and signing Rs. 40,000 bill payable due in 60 days. As a result of this transaction, total assets increased by Rs. 40,000 with a corresponding increase in liabilities by Rs. 40,000.

Q10. Minimum Alternate Tax (MAT) is imposed on:

1 Mark

- A** All companies **B** Public Limited Companies only **C** Private Limited Companies only
D Partnership Firms and Companies

Ans: A All companies

1. All companies

Explanation:

MAT is applicable to all companies, including foreign companies. MAT is calculated under Section 115JB of the Income-tax Act.

Q11. Choose the right answer:

1 Mark

The financial statements of a business enterprise include:

- A** Balance sheet. **B** Profit and loss account. **C** Cash flow statement. **D** All the above.

Ans: D All the above.

4. All of above.

Q12. A company just starting in business purchased three inventory items at the following prices: first purchase 80; second purchase 95; third purchase 85. If the company sold two units for a total of 200 and used LIFO costing, the gross profit for the period would be _____.

1 Mark

A 25

B 35

C 20

D 10

Ans: C 20

3. 20

Explanation:

Under LIFO, the units received in the last would get out first, units of Rs.200 are sold, the cost of the units is Rs.95 and Rs.85 would get out first. Gross Profit = Sale - Cost = 200 - (95 + 85) = Rs.20.

Q13. Which of the following statement is correct?

1 Mark

- A Assets = Liabilities + Shareholders funds B Assets = Total funds C Assets = Funds of outsiders
D None of the above

Ans: A Assets = Liabilities + Shareholders funds

1. Assets = Liabilities + Shareholders funds

Q14. The term Financial Analysis includes both _____.

1 Mark

- A Analysis and Forecasting B Evaluation and Interpretation C Analysis and Interpretation
D Interpretation and Study

Ans: C Analysis and Interpretation

3. Analysis and Interpretation

Q15. Purchase of office equipment on credit results in _____.

1 Mark

- A Decrease in liability B Decrease in Capital C Increase in Capital D Increase in assets

Ans: D Increase in assets

4. Increase in assets

Explanation:

After purchasing office equipment on credit, there is an increment both in asset and liability.

Office equipment is coming into the business will result in increase in asset and amount payable to vendor will result in increase in liability.

Q16. If total assets of a firm are 7 10,00,000 and its non-current assets are 7 6,00,000, what will be the percentage of current assets on total assets?

1 Mark

- A 60% B 50% C 40% D 30%

Ans: C 40%

3. 40%

Q17. Assets are held for the purpose of _____.

1 Mark

- A Earning revenue B Resale C Conversion into cash D Personal purpose

Ans: A Earning revenue

1. Earning revenue

Explanation:

In financial accounting asset is an economic resource. Anything tangible or intangible that can be owned or controlled to produce positive economic value (earning revenue) is an asset.

Q18. The financial statements of a business enterprise include:

1 Mark

- A Balance Sheet B Profit & Loss Account C Cash Flow Statement D All the above

Ans: D All the above

4. All the above

Q19. Financial analysis is significant because it:

1 Mark

- A Ignores qualitative aspect B Judges operational efficiency
C Suffers from the limitations of financial statements
D It is affected by personal ability and bias of the analysis

Ans: B Judges operational efficiency

2. Judges operational efficiency

Q20. What is shown by the Income Statement?

1 Mark

- A** Accuracy of books of accounts **B** Profit or loss of a certain period **C** Balance of Cash Book
D None of these

Ans: B Profit or loss of a certain period

2. Profit or loss of a certain period

Q21. "Dividend is not relevant in determining the value of the company". Who among the following held this opinion?

1 Mark

- A** J.E. Walter **B** Ezra Soloman **C** Modigilani-Miller **D** M.J. Gordon

Ans: C Modigilani-Miller

3. Modigilani-Miller

Q22. Which one of the following statements is correct?

1 Mark

- A** Increases in liabilities are credits and decreases are debits.
B Increases in assets are credits and decreases are debits.
C Increases in capital are debits and decreases are credits.
D Increases in expenses are credits and decreases are debits.

Ans: A Increases in liabilities are credits and decreases are debits.

1. Increases in liabilities are credits and decreases are debits.

Explanation:

Business transactions are events that have a monetary impact on the financial statements of an organization. When accounting for these transactions, numbers in two accounts are recorded, where the debit column is on the left side and the credit column is on the right side.

A debit is an accounting entry that either increase an asset or expense account, or decreases a liability or equity account. It is positioned on the left in an accounting entry.

A credit is an accounting entry that either increases a liability or equity account, or decreases an asset or expense account. It is positioned to the right in an accounting entry.

Q23. In which meeting of company directors report is presented?

1 Mark

- A** Directors Meeting **B** Annual General Meeting **C** Manager's Meeting
D All of the above

Ans: B Annual General Meeting

2. Annual General Meeting

Q24. Whose analysis help in studying accounting data so as to determine the continuity of the operating policies, investment value of the business, credit ratings and testing the efficiency of operations?

1 Mark

- A** Top Management **B** Finance Managers **C** Investors **D** Trade Payables

Ans: B Finance Managers

2. Finance Managers

Q25. _____ describes the significant relationship which exists between various items of a balance sheet and a statement of profit and loss of a firm.

1 Mark

- A** Ratio Analysis **B** Proportion Analysis **C** Trend Analysis **D** Cash flow analysis

Ans: A Ratio Analysis

1. Ratio Analysis

Q26. Loss of stock by fire would lead to _____.

1 Mark

- A** No change in total assets **B** Total assets to decrease **C** Total assets to increase
D Total assets and owners equity to decrease

Ans: D Total assets and owners equity to decrease

4. Total assets and owners equity to decrease

Explanation:

Loss of stock by fire will lead to decrease in closing stock on the asset side of balance sheet and decrease in net income of profit and loss account, i.e. decrease in owner's equity on the liability side of the balance sheet.

Q27. Two mutually exclusive projects with different economic lives can be compared on the basis of _____.

1 Mark

- A** Internal Rate of Return **B** Profitability Index **C** Net Present Value
D Equivalent Annuity Value

Ans: D Equivalent Annuity Value

4. Equivalent Annuity Value

Explanation:

The Equivalent Annual Cost (EAC) is the annual cost of owning, operating and maintaining an asset over its entire life. EAC is often used by firms for capital budgeting decision. The equivalent annual cost methodology allows a company to compare the cost effectiveness of various assets that have unequal lifespan.

Q28. Which of these information is not readily available from financial statements:

1 Mark

- A** Net profit **B** Provision for taxation **C** Gross block **D** Cost of production

Ans: D Cost of production

4. Cost of production

Q29. The process of critical _____ of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called 'Financial Statement Analysis'

1 Mark

- A** Evolution **B** Evaluation **C** Study **D** Analysis

Ans: B Evaluation

2. Evaluation

Q30. What is shown by Balance Sheet?

1 Mark

- A** Accuracy of books of accounts **B** Profit or loss of a specific period
C Financial position on a specific date **D** None of the above

Ans: C Financial position on a specific date

3. Financial position on a specific date

Q31. If total assets of a firm are 7 12,00,000 and its non of non-current assets to total assets?

1 Mark

- A** 50% **B** 75% **C** 25% **D** 80%

Ans: B 75%

2. 75%

Q32. Payment of a liability results in _____.

1 Mark

- A** Increase in total assets **B** Decrease in total assets **C** No change in total assets
D None of these

Ans: B Decrease in total assets

2. Decrease in total assets

Explanation:

Payment of a liability results in reduction of liability and outflow of cash. Outflow of cash leads to decrease in the total assets.

Q33. Horizontal Analysis is also known as:

1 Mark

- A** Dynamic Analysis **B** Structural Analysis **C** Static Analysis **D** None of these

Ans: A Dynamic Analysis

1. Dynamic Analysis

Q34. Using the previous years' data of a business enterprise, _____ can be done to observe the percentage changes over time in the selected data.

1 Mark

- A** Trend Analysis **B** Vertical Analysis **C** Periodical Analysis Technique
D Time Data

Ans: A Trend Analysis

1. Trend Analysis

Q35. Out of the following which parties are interested in financial statements?

- A** Managers **B** Financial Institutions **C** Creditors **D** All the these

1 Mark

Ans: D All the these

4. All the these

Q36. Which of the following is the purpose or objective of financial analysis ?

1 Mark

- A** To assess the current profitability of the firm **B** To measure the solvency of the firm
C To assess the short-term and long-term liquidity position of the firm **D** All the above

Ans: D All the above

4. All the above

Q37. Vertical Analysis is also known as:

1 Mark

- A** Static Analysis **B** Dynamic Analysis **C** Structural Analysis **D** None of these

Ans: A Static Analysis

1. Static Analysis

Q38. Choose the right answer:

1 Mark

The most commonly used tools for financial analysis are:

- A** Horizontal analysis. **B** Vertical analysis. **C** Ratio analysis. **D** All the above.

Ans: D All the above.

4. All of above.

Q39. Which of the following are significance of Financial Analysis?

1 Mark

- A** Assessing the earning capacity. **B** Assessing managerial efficiency. **C** Inter-firm Comparison.
D All of the above

Ans: D All of the above

4. All of the above

Explanation:

Financial analysis means analysing the financial statements of the firm to make financial decisions. It helps in assessing the earning capacity, present position, past performance, managerial efficiency and helps in inter-firm comparison.

Q40. The following are the reasons that advocate in favour of Financial Analysis.

1 Mark

- A** Helps to ascertain the relative importance of different components of the financial position of the firm
B It helps in assessing the long-term solvency of the business.
C It helps in evaluating the profit earning capacity and finance feasibility of a business.
D All of the above

Ans: D All of the above

4. All of the above

Q41. Risk in capital budgeting implies that the decision-maker knows _____ of the cash flows.

1 Mark

- A** Variability **B** Probability **C** Certainty **D** None of the Above

Ans: B Probability

2. Probability

Explantion:

Risk is the probability of damage, loss or threat. Risk in capital budgeting implies that the decision maker knows the probability of cash flows. The decision maker after analysing the risk will have of fair idea of the cash flows that might arise from the decision that is made.

Q42. _____ increases both total assets as well as owner's equity.

1 Mark

- A** Credit purchases **B** Retained earnings **C** Bank loans **D** Drawings

Ans: B Retained earnings

2. Retained earnings

Explanation:

Profits earned by the business are generally considered as retained earnings, if not withdrawn by the owners. If a firm generates the profits and retains them in the business, the cash of the firm increases which is part of the total assets.

Parallel to this, all profits which are retained in the business are ultimately part of the owners' capital, hence it increases.

Q43. By Analysing Common Size Statements Which Analysis can be Processed?

1 Mark

- A** Horizontal Analysis **B** Proportion Analysis **C** Ratio Analysis **D** Vertical Analysis

Ans: **D** Vertical Analysis

4. Vertical Analysis

Q44. Capital Budgeting is a part of _____.

1 Mark

- A** Investment Decision **B** Working Capital Management **C** Marketing Management
D Costing Decision

Ans: **A** Investment Decision

1. Investment Decision

Explanation:

Capital Budgeting is the planning process used to determine whether an organisation's long-term investment proposals are worth funding through the firm's capitalization structure i.e., debt, equity & retained earnings.

The capital budgeting process is a measurable way for businesses to determine the long-term economic and financial profitability of any investment project. A capital budgeting decision is both a financial commitment and an investment.

Q45. Which analysis is considered as Static?

1 Mark

- A** Horizontal Analysis **B** Vertical Analysis **C** Internal Analysis **D** External Analysis

Ans: **B** Vertical Analysis

2. Vertical Analysis

Q46. Limitation of Financial Analysis.

1 Mark

- A** Misleading without the knowledge of the changes in accounting procedure
B Nonmonetary Aspects are Ignored **C** All of the above **D** Ignorance of changes in Price level

Ans: **C** All of the above

3. All of the above

Q47. In periods of inflation, accounting depreciation is _____ relative to replacement cost and real economic income is _____.

1 Mark

- A** overstated, overstated **B** overstated, understated **C** understated, overstated
D understated, understated

Ans: **C** understated, overstated

3. understated, overstated

Q48. Which of the following statements is correct?

1 Mark

- A** Retained Earnings = Total Income **B** Retained Earnings = Revenue - expenses
C Retained Earnings = Gross Profit **D** None of the above

Ans: **B** Retained Earnings = Revenue - expenses

2. Retained Earnings = Revenue - expenses

Q49. Payment received from Debtor _____.

1 Mark

- A** Decreases the total assets **B** Increases the total assets **C** Results in no change in the total assets
D Increases the total liabilities

Ans: **C** Results in no change in the total assets

3. Results in no change in the total assets

Explanation:

Accounting is based on the dual concept. For every debit there will be a credit and for every credit there will be a debit.

Payment received from a debtor will affect two accounts i.e., debtors and cash. Debtors and cash, both are current assets. Accounting entry will be as under:

Cash A/c Dr.

To Debtors A/c

In such case, cash will increase and debtors will decrease, hence no change in assets.

Q50. Profitability Index, when applied to Divisible Projects, impliedly assumes that_____. **1 Mark**

- A** Project cannot be taken in parts **B** NPV is linearly proportionate to part of the project taken up
C NPV is additive in nature **D** Both B and C

Ans: D Both B and C

4. Both B and C

Explanation:

Profitability index is an index that identifies the relationship between cost and profitability of a project. Profitability Index. when applied to divisible projects impliedly assumes that project cannot be taken in parts has to be accepted fully, NPV is linearly proportionate to part of the project taken up and NPV is additive in nature.

Q51. Common-size Statement are also known as: **1 Mark**

- A** Dynamic Analysis **B** Horizontal Analysis **C** Vertical Analysis **D** External Analysis

Ans: C Vertical Analysis

3. Vertical Analysis

Q52. Risk in Capital budgeting implies _____. **1 Mark**

- A** Uncertainty of Cash flows **B** Probability of Cash flows **C** Certainty of Cash flows
D Variability of Cash flows

Ans: A Uncertainty of Cash flows

1. Uncertainty of Cash flows

Explanation:

Risk is the probability of damage, loss or threat. Risk in capital budgeting implies that the decision maker knows the probability of cash flows. Therefore, risk in capital budgeting means uncertainty of cash flows.

Q53. Trend analysis is important because, with its _____ view, it may point to basic changes in the nature of the business: **1 Mark**

- A** Long Run **B** Short run **C** Short Time **D** None of the above

Ans: A Long Run

1. Long Run

Q54. Financial analysis is useful: **1 Mark**

- A** For Investors **B** For Shareholders **C** For Debenture holders **D** All the above

Ans: D All the above

4. All the above

Q55. When Financial Statements of two or more organisations are analysed, it is called: **1 Mark**

- A** Intra-firm Analysis **B** Inter-firm Analysis **C** Vertical Analysis **D** None of these

Ans: B Inter-firm Analysis

2. Inter-firm Analysis

Q56. The paid-up capital of Mukund Ltd. is Rs 18,00,000. The company decided to propose a dividend of Rs 2,16,000 out of current profit. How much of current profit is to be transferred to reserve? **1 Mark**

- A** At least 2.5 % **B** At least 5 % **C** At least 10 % **D** None of the above

Ans: A At least 2.5 %

1. At least 2.5 %

Explanation:

As per the provision of sub section (2) of section 205 of the companies act, no dividend can be declared or paid by the company to its shareholders out of the profits of the company for the financial year after providing depreciation until a specified percentage of profit of the financial year is transferred to reserves.

Q57. Both assets and owners' equity would be increased by _____. **1 Mark**

- A** Capital brought in **B** Purchase of an asset on credit **C** Payment of creditors
D Proprietors drawings

Ans: A Capital brought in

1. Capital brought in

Explanation:

Accounting Equation:

Owners Equity + Liabilities = Fixed Assets + Current Assets

When Owner is bringing capital, it increases owners equity along with the cash or bank balance. Hence both assets and owners equity increases.

Q58. A company's net sales are ₹ 15,00,000; cost of sales is ₹ 10,00,000 and indirect expenses are ₹ 3,00,000, the amount gross profit will be: **1 Mark**

A ₹ 13,00,000 **B** ₹ 5,00,000 **C** ₹ 2,00,000 **D** ₹ 12,00,000

Ans: C ₹ 2,00,000

3. ₹ 2,00,000

Q59. Real rate of return is equal to _____. **1 Mark**

A Nominal Rate x Inflation Rate **B** Nominal Rate ÷ Inflation Rate **C** Nominal Rate - Inflation Rate
D Nominal Rate + Inflation Rate

Ans: B Nominal Rate ÷ Inflation Rate

2. Nominal Rate ÷ Inflation Rate

Explanation:

The real rate of return formula is the sum of one plus the nominal rate divided by the sum of one plus the inflation rate which then is subtracted by one. The formula for the real rate of return can be used to determine the effective return on an investment after adjusting for inflation.

Q60. Which of the following is not used in Capital Budgeting? **1 Mark**

A Time Value of Money. **B** Sensitivity Analysis. **C** Net Assets Method. **D** Cash Flows.

Ans: C Net Assets Method.

3. Net Assets Method.

Explanation:

Capital Budgeting is the process of determining the viability to long term investment on purchase or replacement of property, plant & equipment, new product line or other projects. It takes into account various factors such as time value of money, sensitivity analysis & cash flows.

Q61. Capital Budgeting Decisions are _____. **1 Mark**

A Reversible **B** Irreversible **C** Unimportant **D** All of the above

Ans: B Irreversible

2. Irreversible

Explanation:

Capital budgeting decisions involve huge funds and are long term decisions. As they involve huge costs one wrong decision would have a big effect on the business.

Hence, capital budgeting decisions are irreversible as its difficult to take back the decision.

Q62. This is Not a feature of Trend Analysis: **1 Mark**

A Consider Only Monetary Aspect **B** Percentage Terms **C** Presents a Broader Picture
D Assists in Forecasting

Ans: A Consider Only Monetary Aspect

1. Consider Only Monetary Aspect

Q63. Which of these types of accounting is catered to the need of external users of financial statements. **1 Mark**

A Management Accounting **B** Financial Accounting **C** Managerial accounting
D Cost Accounting

Ans: B Financial Accounting

2. Financial Accounting

Explanation:

The purpose of financial accounting is to comply with external regulations. Internal personnel are not responsible for the financial analysis and decision-making; managerial accounting is utilised for this.

Q64. Main Objective of Analysis of Financial Statement is:

1 Mark

- A** To know the financial strength **B** To make a comparative study with other firms
C To know their efficiency of management **D** All the above

Ans: D All the above

4. All the above

Q65. Break-even Analysis shows:

1 Mark

- A** Relationship between cost and sales **B** Relationship between production and purchases
C Relationship between cost and revenue **D** None of these

Ans: A Relationship between cost and sales

1. Relationship between cost and sales

Q66. A proposal is not a capital budgeting proposal if it_____.

1 Mark

- A** Is related to fixed assets **B** Brings long-term benefits **C** Brings short-term benefits Only
D Has very large investment

Ans: C Brings short-term benefits Only

3. Brings short-term benefits Only

Explanation:

A proposal is not a capital budgeting proposal if it brings short-term benefits only. Capital budgeting decisions involve huge funds and are long term decisions, it benefits the firm in long term.

As they involve huge costs one wrong decision would have a big effect on the business.

Q67. In certainty-equivalent approach, adjusted cash flows are discounted at _____.

1 Mark

- A** Accounting Rate of Return **B** Internal Rate of Return **C** Hurdle Rate
D Risk-free Rate

Ans: D Risk-free Rate

4. Risk-free Rate

Explanation:

In Certainty-equivalent approach, adjusted cash flows are discounted at Risk free Rate.

In this approach the investors will analyse the risk free and risky cash flows. They will evaluate the risk and understand, how much money will be received with certainty.

Q68. Which of the following is not true for capital budgeting?

1 Mark

- A** Sunk costs are ignored **B** Opportunity costs are excluded **C** Incremental cash flows are considered
D Relevant cash flows are considered

Ans: B Opportunity costs are excluded

2. Opportunity costs are excluded

Explanation:

Capital budgeting decisions involve huge funds and are long term decisions. As they involve huge costs one wrong decision would have a big effect on the business.

They include all the potential expenses/costs. It includes opportunity cost, actual cost, incremental and relevant cash flows. It does not include sunk costs.

Q69. Which of the following is not the limitations of financial analysis ?

1 Mark

- A** Lack of Accuracy **B** Based on Historical facts **C** Basis of Valuation
D Information of Profit and Loss

Ans: D Information of Profit and Loss

4. Information of Profit and Loss

Q70. Which of the following is not a capital budgeting decision?

1 Mark

- A** Expansion program. **B** Merger. **C** Replacement of an asset.
D Inventory level.

Ans: D Inventory level.

4. Inventory level.

Explanation:

Capital Budgeting and investment appraisal, is the planning process used to determine whether an organisation's long term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are made effectively.

Capital budgeting helps in making the most optimal decisions. It includes expansion programs, merger decisions, replacement decisions but will not comprise of the inventory related decision making.

Q71. Outstanding business rent of Rs.15,000 was paid by the proprietor from his purse. The effect on the balance sheet is that _____ **1 Mark**

- A** Both liabilities and assets are increased **B** Both liabilities and assets are decreased
C Liabilities are increased, while the assets are decreased
D Liabilities are decreased, while the assets are increased

Ans: B Both liabilities and assets are decreased

2. Both liabilities and assets are decreased

Explanation:

Outstanding business rent of Rs.15,000 was paid by the proprietor from his purse it means rent account debit and cash account credit.

In this liability will decrease and as well assets decreases.

Q72. Break-even point refers to that point where: **1 Mark**

- A** Total Costs are more than Total Sales **B** Total Costs are less than Total Sales
C Total Costs are half of the Total Sales **D** Total Cost are equal to total sales

Ans: D Total Cost are equal to total sales

4. Total Cost are equal to total sales

Q73. Who are also interested in the firm's capital structure to ascertain its influences on firm's earning, Risk and Also evaluate the efficiency of the management and determine whether a change is needed or not? **1 Mark**

- A** Investors **B** Top Management **C** Trade Payables **D** Others

Ans: A Investors

1. Investors

Q74. Which of these are not the method of financial statement analysis? **1 Mark**

- A** Ratio Analysis **B** Comparative Analysis **C** Trend Analysis **D** Capitalisation Method

Ans: D Capitalisation Method

4. Capitalisation Method

Q75. Select the correct statement. **1 Mark**

- A** General reserve is created out of divisible profits **B** General reserve is used for some specified purposes
C Revenue reserve include capital reverse also **D** All the three

Ans: A General reserve is created out of divisible profits

1. General reserve is created out of divisible profits

Explanation:

General reserve is created out of divisible profits. This is the only true statement. General reserve is created to meet any future uncertainties, they are basically the retained earnings of the company.

Q76. Risk with respect to Capital budgeting can be incorporated by _____. **1 Mark**

- A** Adjusting the cash flows **B** Adjusting the discount rate **C** Adjusting the life
D All of the above

Ans: D All of the above

4. All of the above

Explanation:

With a few adjustments to the capital budgeting formula, you can compare projects under different risk situations.

Increase the required rate of return discount factor for your project's cash flows. This adjustment will reduce the value of future cash flows indicating higher uncertainty for the project.

Q77. In a common-size Balance Sheet, total equity and liabilities are assumed to be equal to: **1 Mark**
A 1,000 B 100 C 10 D 1

Ans: B 100

2. 100

Q78. Which of the following statements is/ are NOT correct? **1 Mark**

- A Provision for bad debts appears as a liability on the balance sheet
- B The provision for bad debts is owed to the proprietor
- C Bad debts could be less than the provision for bad debts
- D Bad debts could exceeds the provision for bad debts

Ans: B The provision for bad debts is owed to the proprietor

2. The provision for bad debts is owed to the proprietor

Q79. The value at which an item appears in the financial statement is called its: **1 Mark**

- A Historical cost B Book value C Current cost D Depreciable value

Ans: B Book value

2. Book value

Q80. _____ reduces both total assets as well as owner's equity. **1 Mark**

- A Credit purchases B Retained earnings C Bank loans D Drawings

Ans: D Drawings

4. Drawings

Explanation:

A drawing account is an accounting record maintained to track money withdrawn from a business by its owners. For example if proprietor withdraw cash from business then cash in hand account in decreased i.e. total assets decreased and it is recorded in the proprietor capital account as drawing which will reduce owner's equity.

Q81. In case of unexpired entry following entry should be made _____. **1 Mark**

- A It should be shown as an asset in the balance sheet
- B It is shown as a expense in profit and loss account
- C Both A & B
- D None the above

Ans: C Both A & B

3. Both A & B

Explanation:

Unexpired expenses are prepaid expenses. Prepaid expenses are recorded as an asset in the Balance Sheet and are to be debited in the Profit and Loss Account.

Q82. Withdrawals by proprietor would. **1 Mark**

- A Reduce both Assets and Owner's Equity B Reduce Assets and increase Liabilities
- C Reduce Owner's Equity and increase Liabilities D Have no affect on the Balance Sheet

Ans: A Reduce both Assets and Owner's Equity

1. Reduce both Assets and Owner's Equity

Q83. A purchased a car for Rs. 10,00,000, making a down payment of Rs. 1,00,000 and signing a Rs. 9,00,000 bill payable due in 60 days. As a result of this transaction. **1 Mark**

- A Total asset increased by Rs. 10,00,000 B Total liabilities increased by Rs. 9,00,000
- C Total asset increased by Rs. 9,00,000
- D Total asset increased by Rs. 9,00,000 with corresponding increase in liabilities by Rs. 9,00,000

Ans: D Total asset increased by Rs. 9,00,000 with corresponding increase in liabilities by Rs. 9,00,000

4. Total asset increased by Rs. 9,00,000 with corresponding increase in liabilities by Rs. 9,00,000

Explanation:

A purchased a car for Rs. 10,00,000, making a down payment of Rs. 1,00,000 means we purchasing asset of 10,00,000.

As "A" paid the 1,00,000 then a liability of 9,00,000 will arise.

Hence total assets increased by Rs. 9,00,000 with a corresponding increase in liabilities by Rs. 9,00,000.

Q84. Analysis of financial statements involve:

1 Mark

- A** Trading A/c **B** Profit & Loss statement **C** Balance Sheet **D** All the above

Ans: D All the above

4. All the above

Q85. Tangible assets of company increased from T 4,00,000 to T 5,00,000. What is the percentage of change?

1 Mark

- A** 20% **B** 25% **C** 33% **D** 50%

Ans: B 25%

2. 25%

Q86. NPV of a proposal, as calculated under Risk Adjusted Discount Rate(RADR) & Real Certainty Equivalent(CE) Approach will be _____.

1 Mark

- A** Same **B** Unequal **C** Both A and B **D** None of A and B

Ans: B Unequal

2. Unequal

Q87. In case of the indivisible projects, which of the following may not give the optimum result?

1 Mark

- A** Internal Rate of Return **B** Profitability Index **C** Feasibility Set Approach
D All of the above

Ans: C Feasibility Set Approach

3. Feasibility Set Approach

Explanation:

Feasibility Set Approach to capital Rationing can be applied in divisible projects. Indivisible projects are the one which can be accepted or rejected wholly. So conducting a feasibility test would ensure if the project is suitable or not for the company.

Q88. Whose analysis will evaluate the ability of the company to meet its short-term obligations & firm's liquidity position?

1 Mark

- A** Lenders **B** Investors **C** Trade Payables **D** Shareholders

Ans: C Trade Payables

3. Trade Payables

Q89. When preparing the annual financial statements, the balance of prepaid rent account should be treated as a _____.

1 Mark

- A** Personal account **B** Real account **C** Nominal account
D Deferred revenue expenditure

Ans: A Personal account

1. Personal account

Explanation:

Prepaid expenses are those expenses which have been paid in advance and related benefits are not consumed within the same accounting period. The benefits of expenses incurred are carried to the next accounting period. Examples-prepaid salary, prepaid rent etc. Prepaid expenses are recorded in the books at the end of an accounting period to show true numbers of a business.

When preparing the annual financial statements, the balance of prepaid rent account should be treated as the balance of a personal account and is shown on the assets side of a balance sheet.

Q90. When each co-venturer open his own account, the profit from Joint Venture A/c is:

1 Mark

- A** Credited to joint venture with other A/c **B** Debited to joint venture with other A/c
C Debited to memorandum A/c **D** Credited to general profit and loss A/c

Ans: B Debited to joint venture with other A/c

2. Debited to joint venture with other A/c

Q91. Profit & Loss Account is also called:

1 Mark

- A** Balance Sheet **B** Income Statements **C** Operating Profit **D** Investment

Ans: B Income Statements

2. Income Statements

Q92. Payment of Income Tax is considered as :

1 Mark

A Direct Expenses **B** Indirect Expenses **C** Operating Expenses **D** None of these

Ans: B Indirect Expenses

2. Indirect Expenses

Q93. Financial statements are used by ___

1 Mark

A Owners **B** Creditors **C** Tax authorities **D** All the three

Ans: D All the three

4. All the three

Explanation:

Most Common Users of Financial Statements

Management of the Company.

Investors.

Customers.

Competitors.

Government and Tax authorities

Employees.

Investment Analysts.

Lenders or Creditors

Q94. Markets which bring closer institutions needing funds and with surplus funds are classified as

1 Mark

_____.

A Financial markets **B** Corporate institutions **C** Hedge firms **D** Retirement planners

Ans: A Financial markets

1. Financial markets

Explanation:

Markets which bring closer institutions needing funds and with surplus funds are classified as financial markets.

A financial market is a broad term describing any marketplace where trading of securities including equities, bonds, currencies, and derivatives occur.

Q95. Choose the right answer:

1 Mark

Balance Sheet provides information about financial position of the enterprise:

A At a point in time. **B** Over a period of time. **C** For a period of time. **D** None of the above.

Ans: A At a point in time.

1. At a Point of time.

Q96. In accordance with IAS 1 Presentation of Financial Statements, which one of the following statements is correct?

1 Mark

A Assets and liabilities must be presented broadly in the order of their liquidity.
B Assets and liabilities can be offset if they result from the same transaction or event.
C Intangible assets must be presented separately in the statement of financial position.
D Even if less than 12 months, the length of an entity's operating cycle must be disclosed.

Ans: C Intangible assets must be presented separately in the statement of financial position.

3. Intangible assets must be presented separately in the statement of financial position.

Explanation:

In accordance with IAS 1 Presentation of Financial Statements, Intangible assets must be presented separately in the statement of financial position. IAS 1 sets out guidelines for presentation of financial statements, guidelines for their presentation etc.

Q97. If an individual asset is increased, there will be a corresponding _____.

1 Mark

A Increase of another asset or increase of capital **B** Decrease of another asset or increase of liability
C Decrease of specific liability or decrease of capital **D** Increase of drawings and liability

Ans: B Decrease of another asset or increase of liability

2. Decrease of another asset or increase of liability

Explanation:

In order to satisfy the double-entry system, if an individual asset is increased there will be decrease in another asset or increase in a liability.

Q98. A company is expected to earn a profit of Rs.1 crore from a contract next year, the Accountant of the company is reluctant to account for this expected profit in the current year. He is guided by the Accounting concept of..... **1 Mark**

- A** Materiality **B** Consistency **C** Conservatism **D** Matching

Ans: C Conservatism

3. Conservatism

Explanation:

This accounting concept promotes prudence in accounting. It states that profit should not be included until it is realized. Conservatism is the general concept of recognizing expenses and liabilities as soon as possible when there is uncertainty about the outcome, but to only recognize revenues and assets when they are assured of being received.

Q99. Which of the following is not true with reference to capital budgeting? **1 Mark**

- A** Capital budgeting is related to asset replacement decisions.
B Cost of capital is equal to minimum required return.
C Existing investment in a project is not treated as sunk cost. **D** Timing of cash flows is relevant.

Ans: C Existing investment in a project is not treated as sunk cost.

3. Existing investment in a project is not treated as sunk cost.

Explanation:

Sunk cost is a cost that cannot be recovered and has been incurred already. Existing investment in a project is treated as a sunk cost as it is incurred in the past and cannot be recovered.

Q100. Capital Budgeting deals with _____. **1 Mark**

- A** Long-term decisions **B** Short-term decisions **C** Both A and B **D** Neither A nor B

Ans: A Long-term decisions

1. Long-term decisions

Explanation:

Capital budgeting is the planning process used to determine whether an organisation's long term investments such as new machinery, replacement of machinery, new plants, new products etc. are worth the funding of cash through the firms capitalisation structure.

Q101. Which of the following is not incorporated in Capital Budgeting? **1 Mark**

- A** Tax-Effect **B** Time Value of Money **C** Required Rate of Return
D Rate of Cash Discount

Ans: D Rate of Cash Discount

4. Rate of Cash Discount

Explanation:

Capital budgeting decisions involve huge funds and are long term decisions. As they involve huge costs one wrong decision would have a big effect on the business.

The company understands how much tax benefit will the company have after the investment, whether the rate of return is more than the cost of capital and how much is to be paid in terms of present value.

All these are taken into account but rate of cash discount is not.

Q102. On the basis of process, which of the following is the type of financial analysis? **1 Mark**

- A** Horizontal Analysis **B** Vertical Analysis **C** Ratio Analysis **D** (a) and (b) both

Ans: D (a) and (b) both

4. (a) and (b) both

Q103. Capital Budgeting Decisions are based on _____. **1 Mark**

- A** Incremental profit **B** Incremental cash flows **C** Incremental assets **D** Incremental capital

Ans: B Incremental cash flows

2. Incremental cash flows

Explanation:

Capital budgeting decisions are based on comparison of a project's initial investment outlay to the future incremental cash flows of the project and its terminal cash flow.

Q104. Common-size financial statements are mostly prepared:

1 Mark

- A** In proportion **B** In percentage **C** (a) and (b) both **D** None of these

Ans: B In percentage

2. In percentage

Q105. Comparative Financial Statements show:

1 Mark

- A** Financial position of a concern **B** Earning capacity of a concern **C** Both of them
D None of these

Ans: C Both of them

3. Both of them

Q106. Choose the right answer:

1 Mark

Comparative statement are also known as:

- A** Dynamic analysis. **B** Horizontal analysis. **C** Vertical analysis. **D** External analysis.

Ans: B Horizontal analysis.

2. Horizontal analysis.

Q107. Financial Analysis becomes significant because it:

1 Mark

- A** Ignores price level changes **B** Measures the efficiency of business **C** Lacks qualitative analysis
D Is effected by personal bias

Ans: B Measures the efficiency of business

2. Measures the efficiency of business

Q108. Choose the right answer:

1 Mark

An Annual Report is issued by a company to its:

- A** Directors. **B** Auditors. **C** Shareholders. **D** Management.

Ans: C Shareholders.

3. Shareholders.

Q109. The most commonly used tools for financial analysis are:

1 Mark

- A** All the above **B** Ratio analysis **C** Horizontal analysis **D** Vertical analysis

Ans: A All the above

1. All the above

Q110. Comparative Statements are also known as:

1 Mark

- A** Dynamic Analysis **B** Horizontal Analysis **C** External Analysis **D** Vertical Analysis

Ans: B Horizontal Analysis

2. Horizontal Analysis

Q111. Recording of all business transactions is based on _____.

1 Mark

- A** Sales journal **B** Accounting equation **C** Formula **D** Policies

Ans: B Accounting equation

2. Accounting equation

Explanation:

Accounting equation is the foundation of double entry system of book-keeping. It displays that all the assets are either financed by borrowing money or paying from the shareholder's equity. The balance sheet being the complex version shows explain the equation very clearly and it shows that total assets is equal to total liability plus shareholder's equity. Hence, recording of all business transactions is based on accounting equation.

Q112. The financial statements of a business enterprise include:

1 Mark

- A** Profit and loss account **B** All the above **C** Balance sheet **D** Cash flow statement

Ans: B All the above

2. All the above

Q113. Who of the following can be considered as an internal user of financial statement?

1 Mark

- A** Employees **B** Creditors **C** Bankers
D Government Departments

Ans: A Employees

1. Employees

Explanation:

Management of the business is the internal user of financial statements. Internal users are people within a business organization who use financial information.

Q114. Tools for comparison of financial statements are:

1 Mark

- A** Comparative Balance Sheet **B** Comparative Income Statement **C** Common-size Statement
D All the above

Ans: D All the above

4. All the above

Q115. Divisible profit includes the following except.....

1 Mark

- A** Dividend equalization reserve **B** Capital reserve **C** Profit and loss A/c
D General reserve

Ans: B Capital reserve

2. Capital reserve

Q116. Loss on sale of machinery will be _____.

1 Mark

- A** Debited on Machinery A/c **B** Credited to Machinery A/c **C** Credited to Profit and Loss A/c
D None of them

Ans: B Credited to Machinery A/c

2. Credited to Machinery A/c

Explanation:

Loss on sale. Debit cash for the amount received, debit all accumulated depreciation, debit the loss on sale of asset account, and credit the Machinery A/c.

Q117. Feasibility Set Approach to Capital Rationing can be applied in _____.

1 Mark

- A** Accept-Reject situations **B** Divisible projects **C** Mutually Exclusive Projects
D None of the Above

Ans: A Accept-Reject situations

1. Accept-Reject situations

Explanation:

Feasibility Set Approach to capital Rationing can be applied in Accept-reject situations. Accept-Reject situations are the situations which the company is not sure about, so conducting a feasibility test would ensure if the project is suitable or not for the company.

Q118. Sinking fund A/c is created for which of these purposes:

1 Mark

- A** To repay or redeem a long term fixed liability **B** To replace a wasting asset
C To replace a depreciable asset **D** All the three

Ans: D All the three

4. All the three

Q119. X considered 1000 boxes of grapes costing Rs.200 per box to Y. X incurred Rs.4500 towards transportation and insurance. Y paid Rs. 4000 as godowns rent and Rs. 500 as sales man commission. During road transportation 50 boxes were stolen. Find the value of abnormal loss.

1 Mark

- A** Rs. 11000 **B** Rs. 10225 **C** Rs. 10500 **D** Rs. 10900

Ans: B Rs. 10225

2. Rs. 10225

Q120. Trend ratios and trend percentage are used in:

1 Mark

- A** Dynamic analysis **B** Static analysis **C** Horizontal analysis **D** Vertical Analysis

Ans: C Horizontal analysis

3. Horizontal analysis

Q121. Which of the following is not a limitations of financial statement analysis?

1 Mark

- A** To measure the financial strength **B** Affected by window-dressing
C Do not reflect changes in price level **D** Lack of Qualitative Analysis

Ans: A To measure the financial strength

1. To measure the financial strength

Q122. A company's shareholders fund was 7 8,00,000 in the year 2015. It became 7 12,00,000 in the year 2016.

1 Mark

What is percentage of change?

- A** 100% **B** 25% **C** 50% **D** 33.3%

Ans: C 50%

3. 50%

Q123. Calculate dividend yield on the ordinary shares _____.

1 Mark

- A** 15% **B** 10% **C** 5% **D** 2%

Ans: C 5%

3. 5%

Q124. Tick the false statements:

1 Mark

- A** Cash basis of accounting is valid under the Companies Act
B Cash basis and accrual basis of accounting will show different operating results
C Unexpired discount is a personal account **D** Consistency concept facilitate inter firm comparison

Ans: A Cash basis of accounting is valid under the Companies Act

1. Cash basis of accounting is valid under the Companies Act

Q125. An annual report is issued by company to its:

1 Mark

- A** Directors **B** Auditors **C** Shareholders **D** Management

Ans: C Shareholders

3. Shareholders

Q126. The main and sole Objective of Analysis of financial statements is to:

1 Mark

- A** Measure the financial Strength of the business **B** Ascertain the loss or Profit
C Recognize the Profitability **D** Ascertain the assets and Liabilities of firm

Ans: A Measure the financial Strength of the business

1. Measure the financial Strength of the business

Q127. In Which analysis, each item in the statement is stated as a percentage of the aggregate, or revenue from operations of which that item is a part.

1 Mark

- A** Horizontal Analysis **B** Vertical Analysis **C** External Analysis **D** Dynamic Analysis

Ans: B Vertical Analysis

2. Vertical Analysis

Q128. Sales less Cost of goods sold is called:

1 Mark

- A** Operating Profit **B** Gross Profit **C** Net Profit **D** Total Profit

Ans: B Gross Profit

2. Gross Profit

Q129. Balance Sheet provides information about financial position of the enterprise : **1 Mark**

- A** At a Point of Time **B** Over a Period of Time **C** For a Period of Time **D** None of the above

Ans: A At a Point of Time

1. At a Point of Time

Q130. A cash purchase of supplies would _____. **1 Mark**

- A** Decrease owner's equity **B** Increases liabilities **C** Have no effect on total assets
D None of these

Ans: A Decrease owner's equity

1. Decrease owner's equity

Q131. For calculating trend percentages any year is selected as: **1 Mark**

- A** Current year **B** Previous year **C** Base year **D** None of these

Ans: C Base year

3. Base year

Q132. What factors increase the riskiness of a Capital budgeting Project? **1 Mark**

- A** Industry specific risk factors **B** Competition risk factors **C** Project specific risk factors
D All of the above

Ans: D All of the above

4. All of the above

Explanation:

The factors that increase riskiness of a capital budgeting project are industry specific risk, competition risk and project risk. Industry specific risk/market risk are the risks that might occur due to change in the industry, competition risks are the risk that can occur because of the competitors strategy and lastly project risk are the risk that are associated with the project as whether or not the project will be profitable or not.

Q133. Income distribution of Industrial workers of a city follows normal distribution pattern with a mean wages of Rs. 600 pm, standard deviation of Rs. 50. 228 workers have monthly income more than Rs. 700 per month. Find the total number of industrial workers in the city..... **1 Mark**

- A** 5000 **B** 10,000 **C** 8750 **D** 7500

Ans: B 10,000

2. 10,000

Q134. An information is regarded material if..... **1 Mark**

- A** Its omission or misstatement could influence the decision of the users of the financial statement.
B It meets some financial benchmark **C** If it is substantiated by material evidence
D All the three

Ans: A Its omission or misstatement could influence the decision of the users of the financial statement.

1. Its omission or misstatement could influence the decision of the users of the financial statement.

Q135. Which of the following actions reflects 'adult ego' as per the concept of Transactional Analysis? **1 Mark**

- A** Pleasure **B** Pondering **C** Blessing **D** All of above

Ans: B Pondering

2. Pondering

Explanation:

Pondering reflects 'adult ego' as per the concept of Transactional Analysis.

Q136. Conclusion base on financial analysis may be non-reliable because financial statement is based on certain concepts and conventions. This Statement Can be Limitation of _____. **1 Mark**

- A** Internal Analysis **B** Financial Analysis **C** Vertical Analysis **D** Trend Analysis

Ans: B Financial Analysis

2. Financial Analysis

Q137. Accounts which relates to assets tangible or intangible are called _____. **1 Mark**
A Personal a/c B Real a/c C Nominal a/c D Impersonal a/c

Ans: B Real a/c

2. Real a/c

Explanation:

There are mainly three types of accounts: Real, Personal and Nominal accounts. Personal accounts are classified into three subcategories: Artificial, Natural and Representative. All assets of a firm, which are tangible or intangible, fall under the category "Real Accounts".

Tangible real accounts are related to things that can be touched and felt physically, e.g., building, machinery, stock, land, etc. Intangible real accounts are related to things that can't be touched and felt physically, e.g., goodwill, patents, trademarks, etc.

Q138. Interpretation of Financial Statements includes: **1 Mark**
A Criticisms and Analysis B Comparison and Trend Study C Drawing Conclusion
D All the above

Ans: D All the above

4. All the above

Q139. Which Of the following is limitation of financial analysis? **1 Mark**
A Window-dressing B Basis of Valuation C Lack of Accuracy D All the above

Ans: D All the above

4. All the above

Q140. Which of the following is a type of Financial Analysis on the basis of material used? **1 Mark**
A Internal Analysis B External Analysis C Internal Audit D Both (a) and (b)

Ans: D Both (a) and (b)

4. Both (a) and (b)

Q141. Common Size Statement is of immense use for _____. **1 Mark**
A Trend analysis B Inter firm Comparison C Financial Analysis D Intra firm Comparison

Ans: B Inter firm Comparison

2. Inter firm Comparison

Q142. Reserve is created in which of these A/c **1 Mark**
A Trading A/c B Profit and loss appropriation A/c C Profit and loss A/c
D Manufacturing A/c

Ans: B Profit and loss appropriation A/c

2. Profit and loss appropriation A/c

Explanation:

Reserves are created in the profit and loss appropriation account because it is appropriations against profit. It will be created only when there is availability of the profit.

Q143. _____ are long term prepaid expenses which benefits several years in future. **1 Mark**
A Deferred charges B Prepaid expenses C Miscellaneous expenses to be written off
D Current expenses

Ans: A Deferred charges

1. Deferred charges

Explanation:

Deferred expenses, also called prepaid expenses or accrued expenses, refer to expenses that have been paid but not yet incurred by the business. Common prepaid expenses may include monthly rent or insurance payments that have been paid in advance.

Q144. Which of the following is not followed while taking Capital budgeting decisions? **1 Mark**
A Cash flows be calculated on incremental terms B All costs and benefits are measured on cash basis
C All accrued costs and revenues be incorporated D All benefits are measured on after-tax basis

Ans: C All accrued costs and revenues be incorporated

3. All accrued costs and revenues be incorporated

Explanation:

Capital budgeting is evaluating all the big expenses and cost that the business will incur on a project. They only take into consideration all the cash expenses and revenues and not accrued cost and revenues.

In capital budgeting cash is more important than profit. All benefits are measured on cash basis, tax is taken into consideration to understand the tax benefit.

Q145. Redeemable preference shares of Rs.2,00,000 are redeemed at par for which purpose fresh equity capital of Rs.80,000 is issued at par. What amount should be transferred to Capital Redemption Reserve account? **1 Mark**

- A** Nil **B** Rs.80,000 **C** Rs.1,20,000 **D** Rs.2,00,000

Ans: C Rs.1,20,000

3. Rs.1,20,000

Q146. Window dressing implies. **1 Mark**

- A** Curtailment of expenses **B** Checking of wastages **C** Under valuation of assets
D Over valuation of assets

Ans: D Over valuation of assets

4. Over valuation of assets

Explanation:

The term 'window dressing' means manipulation of accounts so as to present the financial statements in a way to show better position than the actual. e.g., assets may be overstated and liabilities may be understated.

Q147. You require capital for purchase of fixed assets. What is this capital called? **1 Mark**

- A** Floating capital **B** Reserve capital **C** Circulating capital **D** Fixed capital

Ans: D Fixed capital

4. Fixed capital

Explanation:

Fixed capital is the value of capital assets available for production purposes at a given point in time. All capital goods are included which are accounted for in gross fixed capital formation.

This is measured by the value of acquisitions less disposals of new or existing fixed assets.

Q148. Comparative financial analysis process shows the comparison between the items of which statement: **1 Mark**

- A** Balance Sheet **B** Profit & Loss Statement **C** (a) and (b) both
D None of these

Ans: C (a) and (b) both

3. (a) and (b) both

Q149. Income earned and collected results in _____. **1 Mark**

- A** Increase of assets and increase in capital **B** Decrease in assets and increase in capital
C Increase in assets and decrease in liability **D** Decrease in assets and increase in liability

Ans: A Increase of assets and increase in capital

1. Increase of assets and increase in capital

Explanation:

Any income earned is a profit for the business and such income increases the owner's capital in the period when it is earned. When the income is collected, it increases the assets as it results in cash inflow for the business in the period when it is collected.

Q150. Which of these event is not a subject-matter of financial accounting. **1 Mark**

- A** Marriage of key executive of the company. **B** Insurance claim settled by the Insurance company.
C Retrenchment compensation to the workers **D** Bad debts written off recovered

Ans: A Marriage of key executive of the company.

1. Marriage of key executive of the company.

Explanation:

Marriage of key executive of the company is not a subject-matter of financial accounting.

Q151. Majority of Capital Budgeting techniques makes use of _____.

1 Mark

- A** Cash flows **B** Accounting profit **C** Interest rate on borrowings
D Last dividend paid

Ans: D Last dividend paid

1. Cash flows

Explanation:

Capital Budgeting is the planning process used to determine whether an organisation's long term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects will be able to earn future cash flows as estimated.

A number of capital budgeting techniques are used for decision making which are based on cash flows like Payback period, Discounted cash flow, Net present values, Internal rate of return and Profitability Index.

Q152. Which of the following is an irrelevant cost in Capital Budgeting Decisions?

1 Mark

- A** Sunk Cost **B** Opportunity Cost **C** Allocated Overheads **D** Both A and C

Ans: D Both A and C

4. Both A and C

Explanation:

Sunk costs are the costs which were incurred in the past. Sunk costs are irrelevant for decisions, because they cannot be changed.

Opportunity Cost is the income foregone by selecting one alternative over another. These are considered as relevant costs for decision making.

Allocation of overheads means charging a cost center with such overheads which can be identified and measured. Such allocated overheads are irrelevant as already charged to cost center.

Q153. A sale of typewriter that as been used in the office should be credited to _____.

1 Mark

- A** Cash Account. **B** Sales Account. **C** Office Equipment Account.
D Bank Account.

Ans: C Office Equipment Account.

3. Office Equipment Account.

Explanation:

A sale of typewriter that as been used in the office should be credited to office equipment or typewriter account.

As when we sale the fixed asset then asset will reduce and journal will be:

Bank a/c Dr

To Asset a/c

Q154. Which of the following is not an objective of Analysis of Financial Statements:

1 Mark

- A** To judge the financial health of the firm.
B To judge the short-term and long-term liquidity position of the firm.
C To judge the reasons for change in the profitability of the firm.
D To judge the variations in the accounting practices of the business followed by different enterprises.

Ans: D To judge the variations in the accounting practices of the business followed by different enterprises.

4. To judge the variations in the accounting practices of the business followed by different enterprises.

Q155. Purchase of furniture for cash would _____.

1 Mark

- A** Increase the fixed assets and reduce the current assets
B Reduce the fixed assets and increase the current assets **C** Increase total assets
D Both (a) and (b)

Ans: A Increase the fixed assets and reduce the current assets

1. Increase the fixed assets and reduce the current assets