Most Important Questions for JAIIB AFM

Q1. Identify the true statements regarding financial management and mark the correct code.

A. Financial management refers to the management of finance. It is the effective & efficient utilization of financial resources. It means creating a balance among financial planning, procurement of funds, profit administration & sources of funds.

B. In maximizing profits, input-output relationship is crucial, either input is minimized to achieve a given amount of profit or the output is maximized with a given amount of input.

C. Profit maximization is the modern and broader approach, which aims at maximizing the profit of the concern.

D. In wealth maximization, the value of an asset should be viewed in terms of benefits it can produce over the cost of capital investment.

Options:

(a) A, B, C, D

(b) A, B, D

(c) B, C, D

(d) C, D

Q2. What are the different arguments which is in favour of Profit Maximization. Identify the correct arguments and mark the correct code.

I. Profit is the test of economic efficiency

II. Internal resources for expansion

III. Desire for controls

IV. Social Welfare

V. Basis of decision making

(a) I, II, III

(b) II, III, IV

(c) III, IV, V

(d) I, II, III, IV, V

Q3. Functions of financial management includes

A. Investment Decision

B. Liquidity Decision

C. Financing Decision

D. Dividend Policy Decision

E. Natural Decision

F. Cost-management Decision

(a) A, B, C, D, E

(b) A, B, C, D

(c) C, D, E, F

(d) C, D, E

Q4. Indicates the correct code which highlights the importance of Financial Management.

I. Essence of Managerial Decisions

II. Scientific and Technical Analysis

III. Decentralized in nature

IV. Measure of Performance

V. Improve Profitability

(a) I, IV, V

(b) I, III, V

(c) I, II, III, IV

(d) III, IV, V

Q5. Identify the true functions of Indian Financial System and mark the correct code.

A. Link between savers and investors

B. Increase cost of transaction and borrowing

C. Maximizes situations of symmetric information

D. Helps in project selection

E. Allocation of risk

(a) A, B, C, D, E

(b) A, C, E

(c) A, D, E

(d) B, C, D, E

Q6. Mark the correct steps of financial planning.

A. Establish corporate objectives

B. Formulate strategies

C. Develop plans

D. Delegate responsibilities

E. Forecast financial variables

F. Create flexible economic environment

(a) A-B-C-D-E_F

(b) F-E-D-C-B-A

(c) A-B-D-E-C-F

(d) A-B-D-F-C-E

Q7. In India these are governed by an important act, 1932. As per Section 4 of the act, this is defined as it is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

There are also several features for the same. These are:

i. The agreement is to carry on a business with the object of sharing profits

ii. The business is to be carried on by all or any of them acting for all.

On the basis of above statement, identify the forms of business organization.

(a) Sole proprietary

(b) Partnership firm

(c) Limited Liability Partnership

(d) Hindu Undivided Family

Q8. Statement I: HUF is a form of business organisation existing only in India and is governed by the provisions of the Hindu Law. It is different from a partnership firm as it comes into existence not out of any contract but birth in a Hindu family.
Statement II: An LLP is an association of persons who contribute money or money's worth to a common stock and use it for a common purpose. It is created by law and effected by law.
In the context of given statement, mark the correct option.
(a) Both statements are true
(b) Both statements are true
(c) Statement I is true and statement II is false
(d) Statement I is false and statement II is true

Q9. Financial decisions in an organization includes:
A. Deciding capital structure
B. Deciding sources of funds
C. Estimating capital requirements
D. Corporate strategy
E. Corporate dilemma
(a) A, B, C, D
(b) B, C, D. E
(c) A, C, D
(d) A, B, C, D, E

Q10. Fundamental principles of finance include
A. TVM
B. Risk & Return
C. Diversification
D. Cash flow
E. Hedging
Mark the correct option:
(a) A, B, C, D
(b) A, B, D, E
(c) C, D, E
(d) A, B, C, D, E

Q11. Financial decisions of a firm are often guided by this phenomenon. Risk is inherent in every investment, though its scale varies. In order to increase the possibility of higher return, the firm needs to increase the risk taken. On the other hand, if it does not want to take high risk, it has to be content with low return. Depending upon the risk-taking ability, investment objectives, and the time horizon available to achieve it, a firm has to find the optimal combination of risk and return in a financial decision. A proper balance between return and risk should be maintained. This is called________
(a) Risk-return trade off
(b) Risk optimization
(c) Required rate of return
(d) Risk premium

Q12. This problem is a conflict of interest inherent in relationships involving different parties. In such relationships, one party is expected to act in the best interest of another party. The one party is commonly engaged by a principal due to different skill levels, different employment positions, or restrictions on time and access. For example, a shop owner will hire a salesman to look after sales as he himself is engaged in other activities. Although the salesman is expected to sell the goods at the maximum price and pay the proceeds to the owner, verification may show that the sales have taken place at lower prices.
What is the problem we called in financial management?
(a) Conflict of interest problem
(b) Business discrimination problem
(c) Agency problem
(d) None of the above

Q13. Statement I: The Stakeholder theory highlights the differences of interest between individual groups within an organization, such as the employees, investors, and suppliers as also outside stakeholders like the local community.
Statement II: Agency theory describes the problems that occur when one party representing another party in the business holds different views on key business issues or there is a conflict of interests. The agent may follow personal beliefs to influence in key business decisions.
In the context of given statement, mark the correct option.
(a) Both statements are true
(b) Both statements are true
(c) Statement I is true and statement II is false
(d) Statement I is false and statement II is true

Q14. Statement I: Studies have shown that socially responsible enterprises not only benefit society but also improve sustainability of their business models, have improved marketing, employee satisfaction, brand perception, and customer loyalty.
Statement II: Companies which take care of their employees and apply high ethical standards in dealing with them, have high productivity and low attrition rates.
In the context of given statement, mark the correct option.
(a) Both statements are true
(b) Both statements are true
(c) Statement I is true and statement II is false
(d) Statement I is false and statement II is true

Q15. Highlight the emerging role of the finance manager in India and mark the correct code:
A. Raising Debt
B. Raising Equity
C. Foreign Exchange Management
D. Dealing with rating agencies
E. Treasury operations
(a) A, C, D
(b) C, D, E
(c) B, C, D, E
(d) A, B, C, D, E

Q16. Statement I: Though both, economic and finance, examine how companies and entrepreneurs evaluate risk and return, historically, economics has been more theoretical and finance more practical.
Statement II: Financial management involves broader aspects of planning and control of all financial activities, accounting mainly involves recording, analysis and presentation of financial data.
In the context of given statement, mark the correct option.
(a) Both statements are true
(b) Both statements are true
(c) Statement I is true and statement II is false
(d) Statement I is false and statement II is true

Directions (17-19): XYZ Ltd. is a manufacturing company that has been in operation for the past five years. The company's assets include plant and machinery, furniture, and fixtures, and it follows the straight-line method of depreciation. The company has the following assets with their respective original costs and estimated useful lives for the year 2022-2023:

Asset - Original Cost	**Estimated Useful Life**
Plant and Machinery - ₹50,00,000	**10 years**
Furniture - ₹5,00,000	**5 years**
Fixtures - ₹2,00,000	**2 years**

The company has the following transactions during the current financial year:
(i) The company purchased a new plant and machinery for ₹10,00,000 on 1st April 2022.
(ii) The company sold the old plant and machinery costing ₹10,00,000 for ₹2,00,000 on 1st July 2022.
Based on the above information, answer the following questions:

Q17. What is the annual depreciation expense for plant and machinery?
(a) ₹5,00,000
(b) ₹4,50,000
(c) ₹5,50,000
(d) ₹4,00,000

Q18. What is the total depreciation expense for the furniture for the financial year 2024-25?
A. ₹5,00,000
B. ₹2,00,000
C. ₹1,00,000
D. ₹3,00,000

Q19. What is the net book value of plant and machinery as of 31st March 2023?
(a) ₹40,00,000
(b) ₹33,75,000
(c) ₹45,50,000
(d) ₹38,25,000

Q20. Match the following terms with their appropriate definitions:
1. CRR
2. Repo
3. Reverse Repo
4. Clearing/RTGS
5. Currency Chest Transactions
6. Maker Checker Concept
A. An account maintained by the RBI where banks must maintain a certain percentage of their deposits as a reserve.
B. Transactions that involve the sale of securities by the bank to the RBI with an agreement to buy them back at a later date.
C. Transactions that involve the purchase of securities by the bank from the RBI with an agreement to sell them back at a later date.
D. The process of electronically transferring funds from one bank account to another.
E. Transactions involving the storage and movement of physical currency between banks and the RBI.
F. The concept of having one person prepare a statement and another person review and approve it.
(a) 1-D, 2-E, 3-C, 4-A , 5-B , 6-F
(b) 1-C, 2-F, 3-D, 4-A , 5-B , 6-E
(c) 1-A, 2-B, 3-C, 4-D , 5-E , 6-F
(d) 1-D, 2-E, 3-A, 4-C , 5-B , 6-F

Q21. What is the purpose of reconciling control and subsidiary records in the branch level accountancy, and what is the main challenge that persists even with computerization?
(a) The purpose of reconciling control and subsidiary records in branch-level accountancy is to ensure that all the subsidiary ledger balances match the control account balance in the general ledger. The main challenge that persists even with computerization is the reconciliation of outstanding entries in the suspense and sundry deposit accounts.
(b) The purpose of reconciling control and subsidiary records in branch-level accountancy is to ensure that all the subsidiary ledger balances match the control account balance in the general ledger. The main challenge that persists even with computerization is the balancing of the books of account.
(c) The purpose of reconciling control and subsidiary records in branch-level accountancy is to ensure that all the subsidiary ledger balances match the control account balance in the general ledger. The main challenge that persists even with computerization is the identification of errors committed in posting/balance calculation, writing in the day book or in total, or while posting in the GL control account.
(d) The purpose of reconciling control and subsidiary records in branch-level accountancy is to ensure that all the subsidiary ledger balances match the control account balance in the general ledger. The main challenge that persists even with computerization is the reconciliation of entries in the sundry deposits account.

Q22. Which of the following transactions does not result in an inter-office credit or debit entry?
A. Issue of remittance instruments like drafts on other branches.
B. Payment of remittance instruments like drafts drawn by other branches.
C. Payment to/receipts from other branches of the proceeds of instruments received/sent for collection/ realisation/clearing.
D. Transactions through NEFT, ECS and RTGS.
E. ATM transactions of the customer either at ATMs linked with other branches or with merchant establishments.
F. Transactions through payment gateways of ATMs etc.
G. Payment of instruments like gift cheques/banker's cheques/interest warrants/dividend warrants/ repurchase warrants/refund warrants/traveller's cheques, etc., which are paid by the branch on behalf of other branches which have received the amount for payment of these instruments from the customers concerned.
H. Operations by the authorised branches on the bank's NOSTRO accounts.
I. Foreign exchange transactions entered into by the branch for which it has to deal with the nodal forex department of the bank for the exchange of rupees with foreign currency.
J. Deposits and withdrawal of money by branches from the currency chest maintained by another branch.
K. Cash sent to/received from other branches.
(a) A, E, H, I, B, C
(b) A, B, C, D, E, F, K
(c) A, D, G, H, I, J, K
(d) None of the above

Q23. What happens if a forged draft is paid by Branch B, and there is no entry pertaining to the draft in the daily statement of Branch A?
A. The central reconciliation department will match the originating and responding entries, and the entry will not appear in the statement of unreconciled entries prepared by the department.
B. The CRD will not be able to match the responding entry, and it will appear as an unreconciled entry in the statement prepared by the department.
C. The CRD will automatically detect the forged draft and notify both branches.
D. The daily statement of branch B will not contain a responding entry, as the draft is forged and therefore not paid by the bank.
E. Branch B will be held responsible for the payment of the forged draft and will be required to compensate the bank.
(a) A & C
(b) B only
(c) D & E
(d) None of the above

Q24. Which of the following does not showcase the application of the going concern concept?
(i) Preparation of financial statements
(ii) Valuation of Assets
(iii) Loan and Credit Assessments
(iv) Business valuation and investment decisions
(v) Long term planning
(vi) Reserves and Provisioning

(vii) Depreciation and Amortisation
(viii) Deferred Revenue Expenditure
(a) Only iii
(b) i & iii
(c) All of the above
(d) None of the above

Q25. Ash recently started a small business and has been learning about various accounting conventions to help her understand and prepare her financial statements accurately. Based on the following case study, identify the accounting convention Ash is applying in each of the given scenarios:

- **Scenario 1: Ash purchases a new computer for her business. She decides to expense the cost of the computer over its useful life of five years, rather than expensing the entire cost in the year of purchase.**
- **Scenario 2: Ash's business faces potential legal claims from a dissatisfied customer. Even though the outcome of the lawsuit is uncertain, she chooses to record the potential liability in her financial statements.**
- **Scenario 3: Ash's business has a few intangible assets, such as customer goodwill and a strong brand reputation. However, she decides not to record these intangible assets in her financial statements as their value cannot be measured accurately.**
- **Scenario 4: Ash records her business transactions on an accrual basis, ensuring that revenue and expenses are recognized in the periods when they are incurred, regardless of when the cash is received or paid.**

Which accounting convention is Ash applying in each scenario?
(a) Scenario 1: Conservatism; Scenario 2: Materiality; Scenario 3: Objectivity; Scenario 4: Consistency
(b) Scenario 1: Consistency; Scenario 2: Conservatism; Scenario 3: Objectivity; Scenario 4: Accrual basis
(c) Scenario 1: Matching; Scenario 2: Conservatism; Scenario 3: Objectivity; Scenario 4: Accrual basis
(d) Scenario 1: Materiality; Scenario 2: Conservatism; Scenario 3: Objectivity; Scenario 4: Matching

Q26. ABC Corporation is a manufacturing company that produces and sells consumer electronics. The company recently purchased new machinery to increase production efficiency. ABC Corporation has incurred some costs in relation to the new machinery, and management is debating whether these costs are considered capital expenditures or revenue expenditures.
Which of the following expenses would be considered a capital expenditure for ABC Corporation?
(a) Repair costs for the new machinery
(b) Cost of transporting the new machinery to the factory
(c) Annual maintenance costs for the new machinery
(d) Cost of training employees to operate the new machinery

Q27. MTS Corporation is a manufacturing company that produces different types of clothing. In 2020, the company had to replace some old machines with new ones to improve the production process. The company also decided to renovate the production plant, which included adding a new wing to the plant. Additionally, the company purchased new equipment for the maintenance department.
Which of the following expenses would be considered a capital expenditure for ABC Corporation in 2020?

A. The cost of purchasing new equipment for the maintenance department.
B. The cost of renovating the production plant, including the addition of a new wing.
C. The cost of replacing some old machines with new ones to improve the production process.
(a) Only A
(b) B and C
(c) C and A
(d) All of the above

Q28. You are the newly hired Chief Financial Officer (CFO) of XYZ Ltd, a company that manufactures and sells electronic gadgets. The previous CFO did not strictly follow the conventions of accounting, which led to inconsistencies in financial reporting. To resolve the issues and improve the company's financial reporting, you decide to implement the following accounting conventions:
1. Conservatism
2. Consistency
3. Materiality
4. Full Disclosure
As the CFO, you are required to provide an example for each of the accounting conventions in the context of XYZ Ltd.
(a) Conservatism: Overestimating expenses and underestimating revenues
Consistency: Using the same inventory valuation method every year
Materiality: Ignoring minor discrepancies in inventory count
Full Disclosure: Providing all relevant financial information in the footnotes
(b) Conservatism: Using the same inventory valuation method every year
Consistency: Overestimating expenses and underestimating revenues
Materiality: Providing all relevant financial information in the footnotes
Full Disclosure: Ignoring minor discrepancies in inventory count
(c) Conservatism: Ignoring minor discrepancies in inventory count
Consistency: Overestimating expenses and underestimating revenues
Materiality: Using the same inventory valuation method every year
Full Disclosure: Providing all relevant financial information in the footnotes
(d) Conservatism: Providing all relevant financial information in the footnotes
Consistency: Using the same inventory valuation method every year
Materiality: Overestimating expenses and underestimating revenues
Full Disclosure: Ignoring minor discrepancies in inventory count

Q29. You are an auditor reviewing the financial statements of XYZ Company, a manufacturer of electronic components. The company has been facing financial difficulties over the past few years, and the following information has come to your attention:
1. Revenues have been declining for three consecutive years, and the company has incurred net losses in the last two fiscal years.

2. XYZ Company has defaulted on its loan payments to the bank for the past six months, and the bank has issued a notice of foreclosure on the company's factory.
3. The company has an outdated manufacturing facility, and its key competitors have invested heavily in new technology, leading to a significant reduction in XYZ Company's market share.
4. A significant portion of the company's inventory is obsolete due to rapid technological advancements in the industry.
5. Employee morale is low, and several key employees have left the company recently.
6. XYZ Company has not been able to secure additional financing from investors or financial institutions.
Based on the information above, which of the following is the most appropriate conclusion regarding XYZ Company's going concern assumption?
(a) The going concern assumption is appropriate because the company is still operating and has not yet filed for bankruptcy.
(b) The going concern assumption is appropriate because the company's financial difficulties are only temporary and can be resolved through cost-cutting measures.
(c) The going concern assumption is not appropriate due to the company's financial difficulties and the multiple indicators suggesting that the company may not continue operating in the foreseeable future.
(d) The going concern assumption cannot be determined without additional information

Q30. Which of the following are types of credit vouchers?
1) Pay-in-slips, which customers use to deposit funds into their accounts and are typically in a standard format adopted by the bank, but there may be variations for certain customers based on formal agreements
2) Applications for various financial instruments such as term deposits, demand drafts, RTGS/NEFT, banker's cheques, pay orders, gift cheques, and travellers' cheques, some of which may be made on behalf of the branch for payments it needs to make
3) Challans used to deposit funds into Central/State Government accounts for taxes or schemes like public provident fund
4) Credit vouchers prepared by the bank and authorized by an official, which may be signed on behalf of the branch or by the customer in some instances, and cover transactions such as deposit of locker charges or purchase of non-judicial stamps required for document execution
5) Payment of collection instruments from other branches of the bank, which may be treated as a credit voucher if accompanied by credit advice or a copy of the collection schedule from the other branch.
(a) 1 and 2
(b) 1 and 5
(c) 2, 3 and 5
(d) All of the above

Q31. Mr Bot has an SB account in SBC Bank. On 10/05/2023, Mr Bot had the following transactions concerning his account.

(i) Cheque deposited earlier of Rs 5000 is paid through clearing.	**Payment received through clearing for a Cheque of 5,000 deposited earlier will result in a credit entry (clearing-in) in the account of Mr Bot and a debit entry of 5,000 in the account of the bank conducting the clearing house**
(ii) Cheque of 4,000 issued to Mr Dean is received at the branch in the clearing.	**The Cheque of 4,000 issued to Mr Dean is received at the branch in clearing will result in a debit to his account (clearing–out) and a credit entry of 4,000 in the account of the bank conducting the clearing house.**
(iii) Mr Bot deposited Rs 10,000 in his account through Cash	**The deposit of 10,000 in cash will be credited to Mr Bot's account and result in a debit entry of 10,000 in the cash account. This entry is part of the cash scroll of the cashier concerned. The total of the cash scroll is taken in the cash book**
(iv) Mr Bot also deposited a cheque of 15,000 issued on the same branch by another customer, Mr Gee	**The deposit of the cheque of 15,000 issued on the same branch by another customer, Mr Gee, will result in a transfer credit entry of 15000 in the account of Mr Bot. The corresponding debit entry will be a transfer entry of 15,000 in the account of Mr Gee**
(v) Purchased draft for 3,000 on an outstation branch of the bank (Draft issued at par by the branch)	**Purchase of a draft for 3,000 on an outstation branch of the bank at par, will result in a debit entry of 3,000 in the account of Mr Bot and a credit entry of 3,000 in Inter- Office account/ Draft account**

Which of the transactions and pertaining effects are correct?

(a) I, ii and iii

(b) I, iii, iv and v

(c) All of the above

(d) None of the above

Q32. Which of the following is true regarding transactions in a bank?

(i) All transactions in a bank are of cash type.

(ii) Non-cash transactions involve only the internal accounts of the bank.

(iii) Transfer transactions involve at least one account of a customer and can be either cash or non-cash

(iv) In non-cash transfer transactions, only the account of the customer initiating the transaction is affected.

(a) Only i

(b) Only iii

(c) i and iii

(d) i, ii, and iv

Q33. ABC Company, a manufacturing firm, incurred various expenses during the financial year 2022-23. The company is trying to determine which expenses should be classified as capital and revenue expenditures. The following are the expenses incurred by the company:
1. Purchase of a new building
2. Replacement of a damaged roof on the production unit
3. Purchase of a new machine for the production process
4. Payment of salaries to employees
5. Repairs to the company's delivery truck
Which of the following expenses incurred by ABC Company should be classified as capital expenditures?
(a) 1, 2 and 5
(b) 3 and 4
(c) 4 and 5
(d) 1 and 3

Q34. Which of the following is true regarding the vouchers used for debit and credit operations on all accounts, whether by customers or the bank itself?
(a) There are only credit vouchers that are used to record transactions in the personal ledgers and summary sheets.
(b) The composite vouchers are used only for the internal accounts of the bank.
(c) The debit vouchers are used to record transactions such as cheques issued by customers, cheques/pay orders issued by the bank, withdrawal forms received from savings bank account holders, and drafts issued by other branches of the bank payable at the branch.
(d) Debit vouchers are used to record transactions such as deposits of amounts in accounts by customers and applications for the issue of term deposits, demand drafts, and other similar instruments.

Q35. XYZ Bank has appointed an external auditor to conduct a statutory audit of their financial statements for the fiscal year ending on March 31, 2022. The auditor has been given access to all the relevant information and documentation required for conducting the audit.
During the course of the audit, the auditor observes that there are several instances where the bank has not followed the prescribed procedures and policies for banking operations. Some of the observations are:
1. The bank has not maintained adequate records of customer identification and verification as required under the Prevention of Money Laundering Act (PMLA) and Know Your Customer (KYC) guidelines issued by the Reserve Bank of India.
2. The bank has not ensured that the transactions carried out through the branch network are adequately monitored and the necessary approvals obtained as per the bank's internal policies and procedures.
3. The auditor has found instances where the bank has extended credit facilities to customers beyond the sanctioned limits without obtaining the necessary approvals from the competent authorities.
4. The bank has not maintained proper records of transactions carried out by the bank's employees in their personal accounts, which has the potential to create conflicts of interest.

Based on the above observations, which of the following is true regarding the observations made by the auditor during the bank audit?

(a) The bank has followed all the prescribed procedures and policies for banking operations.

(b) The bank has maintained adequate records of customer identification and verification as required.

(c) The bank has ensured that the transactions carried out through the branch network are adequately monitored and the necessary approvals obtained as per the bank's internal policies and procedures.

(d) The bank has not complied with the applicable regulatory requirements and has weak internal controls, as observed by the auditor during the course of the audit.

Q36. The typical and most common types of errors observed in office accounts which are non-existent in the core banking system includes:

(i) Recording of particulars in incorrect fields.

(ii) Posting of transactions in incorrect office accounts.

(iii) Errors in writing the amounts.

(iv) Double recording of the same transaction.

(v) Squaring off the transaction by the same amount without checking the transactions.

(vi) Forced matching of transactions.

(a) I, ii, and iv

(b) iii, iv and v

(c) ii, iii, iv and v

(d) i, ii, iii, iv and v

Q37. Which of the following is true based on RBI's instructions regarding inter-branch accounts?

(a) Banks have been advised to maintain separate accounts for various types of transactions put through inter-branch accounts.

(b) The net debit in one category can be set-off against the net credit in another category.

(c) Banks are not required to make any provision against the net debit balance in the inter-branch account in respect of entries outstanding for more than six months.

(d) RBI has not advised the banks to segregate inter-branch transactions relating to demand drafts from other inter-branch transactions.

Q38. What is the typical process followed by banks for reconciliation of inter-branch accounts?

(a) The inter-branch accounts are reconciled by individual branches and sent to the central reconciliation department.

(b) The daily statements of inter-branch accounts are matched automatically by the computer system and any unreconciled entries are flagged.

(c) The reconciliation work of inter-branch accounts is normally centralised at the IT department at the Head Office.

(d) Banks do not sub-divide the inter-branch accounts into segments or specific areas**.**

Q39. Which of the following statements are correct?
(i) Banks have their own policies and procedures for dealing with unreconciled entries in the inter-office accounts.
(ii) These policies include ensuring correct daily statements, applying A-B-C analysis, prescribing procedures for the head office, expediting clearance of arrears, emphasizing reversal entries, and having a system for timely dispatch of daily statements.
(iii) The system is also checked for unusual entries or any transactions other than those related to inter-branch transactions.
(iv) The Board of Directors of the bank is required to review the reconciliation process at regular intervals.
(v) In addition, originating debits to head office accounts are restricted to certain transactions, such as cash/funds transfer, purchase of securities/capital assets, withdrawals from Provident Fund, advances to inspection and other staff members.
(a) ii and iii
(b) i and iv
(c) All of the above
(d) None of the above

Q40. A retail store maintains a cash book to record its daily cash transactions. The following transactions took place during the month of June 2022:
June 1: Beginning balance in the cash book was Rs. 10,000.
June 2: Sold merchandise for Rs. 2,500 in cash.
June 4: Paid rent for the month of June of Rs. 1,500 by cash.
June 7: Received cash of Rs. 1,000 from a customer who had a credit balance.
June 10: Bought office supplies for Rs. 1,000 by cash.
June 12: Paid salary to employees amounting to Rs. 3,000 in cash.
June 15: Received cash of Rs. 2,500 from a debtor who had a credit balance.
June 18: Bought merchandise for Rs. 5,000 by cash.
June 20: Withdrew cash of Rs. 2,000 for personal use.
June 23: Sold merchandise for Rs. 3,000 in cash.
June 25: Paid telephone bill of Rs. 500 by cash.
June 28: Received cash of Rs. 2,000 from a debtor who had a credit balance.
What are the total cash receipts and cash payments during the month of June 2022 respectively?
(a) Cash receipts: Rs. 8,000, Cash payments: Rs. 7,000
(b) Cash receipts: Rs. 9,000, Cash payments: Rs. 8,500
(c) Cash receipts: Rs. 11,000, Cash payments: Rs. 13,000
(d) Cash receipts: Rs. 10,000, Cash payments: Rs. 8,500

Q41. Consider the following statements regarding the practices involved in handling unreconciled entries in inter-branch accounts at banks and choose the correct one?
(a) Only entries with a high value are examined and enquired into by the Central Reconciliation Department.
(b) Artificial intelligence is used to examine and enquire into all unreconciled entries in the statement generated by the system.
(c) Branches are required to properly prepare and check their daily statements to avoid mistakes, such as wrong identification of the type of transaction, errors in writing amounts, and recording the same transaction twice.
(d) The head office does not prescribe any procedures for action to be taken regarding entries not responded to by the branch concerned within a reasonable time.

Q42. A company has two bank accounts, Account A and Account B. As of March 31, 2022, Account A had a balance of Rs 10,000 and Account B had a balance of Rs 15,000. During April 2022, the following transactions occurred:
(i) A check for Rs 1,000 was deposited into Account A on April 1, 2022.
(ii) A check for Rs 2,500 was deposited into Account B on April 5, 2022.
(iii) A check for Rs 500 was issued from Account A on April 10, 2022.
(iv) A deposit of Rs 3,000 was made into Account B on April 15, 2022.
(v) A check for Rs 1,200 was issued from Account B on April 20, 2022.
(vi) A deposit of Rs 4,000 was made into Account A on April 25, 2022.
(vii) A check for Rs 2,000 was issued from Account A on April 30, 2022.
At the end of April 2022, what is the balance of Account A and Account B respectively?
(a) Account A: Rs 13,500, Account B: Rs 18,500
(b) Account A: Rs 14,500, Account B: Rs 18,500
(c) Account A: Rs 14,000, Account B: Rs 18,000
(d) Account A: Rs 12,500, Account B: Rs 19,300

Q43. Which of the following is true regarding RBI's instructions to banks on inter-branch transactions?
(a) Banks are required to reconcile the entries outstanding in their inter-branch accounts within a period of five years.
(b) Banks are not required to maintain category-wise accounts for various types of transactions put through inter-branch accounts.
(c) RBI has advised banks to make provision against the net credit balance in the inter-branch account in respect of entries outstanding for more than six months.
(d) Banks are required to segregate the credit entries outstanding for more than five years in inter-branch accounts and transfer them to a separate Blocked Account which should be shown in the balance sheet under the head 'Other assets and provisions–Others.

Q44. A company purchases goods worth Rs. 50,000 from a supplier. The supplier agrees to provide the goods on credit and issues a bill of exchange payable after 60 days. The company accepts the bill of exchange and records it in their books of accounts. However, after 45 days, the supplier informs the company that they need the payment earlier than the agreed upon 60 days.
What would be the impact of this information on the accounting entries recorded by the company for the bill of exchange?
(a) The company would reverse the accounting entries recorded for the bill of exchange and make a new entry for the payment to the supplier.
(b) The company would need to issue a new bill of exchange with a revised payment date and make new accounting entries accordingly.
(c) The company would need to negotiate with the supplier for a new payment date and adjust the accounting entries accordingly.
(d) The company would need to honour the supplier's request for early payment and adjust the accounting entries accordingly.

Q45. Which one of the following shows the correct balance sheet equation?

1. **Outside Liabilities= Assets – Capital**
2. **Assets= Claims of Owners**
3. **Assets = Claims of creditors + Claims of owners**
4. **Assets= Outside Liabilities + Capital**

Choose the correct option:

(a) 1, 2, 3
(b) 2, 3, 4
(c) 1, 3, 4
(d) All of these

Q46. Among these, which one of the following is not related to the adjustment entries relating to Income and Expenditure?

(a) Some of the expenses may have been incurred but not paid
(b) Some of the expenses may have been paid in advance but not incurred
(c) Some incomes may have accrued and received
(d) Some incomes may have been received but not accrued

Q47. Which of the following statements are true regarding financial statements?

1. **Financial statements are only interim reports.**
2. **Financial statements are also known as annual reports**
3. **Financial statements are historic.**

Choose the correct option:

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

Q48. There are different methods of inventory valuation. Indian Accounting Standard (Ind AS 2) permits only:

1. **First in First out method**
2. **Last in Last Out method**
3. **Weighted Average cost method**

Choose the correct option:

(a) 1 only
(b) 2 only
(c) 1 and 2 only
(d) 1 or 3

Q49. A company XYZ (parent co.) is required to present consolidated financial statements, except if it meets certain conditions. You need to identify those conditions from the following.

1. **It is a subsidiary of another entity and all its other owners, including those not otherwise entitled to vote, have been informed about and do not object to, the parent not presenting consolidated financial statements.**
2. **Its debt or equity instruments are not traded in a public market.**
3. **Its ultimate or any intermediate parent produces Ind AS complaint consolidated financial statements available for public use.**

(a) Both 1 and 3
(b) Both 1 and 2
(c) Both 2 and 3
(d) All of these

Q50. When dividend is actually received on due date
(a) the pro-rata amount relating the period before the date of acquisition is entered in the income column (Cr) of the following investment account
(b) the pro-rata amount relating to the period after the date of acquisition is entered in the income column (Cr) of the investment account
(c) the entire amount is entered in the income column (Dr) of the investment account
(d) the entire amount is entered in the capital column (Cr) of the investment account

Q51. 12,000 shares of ₹ 100 each forfeited due to nonpayment of allotment of ₹ 40 per share and first & final call of ₹ 30 per share. Out of the forfeited shares, 9,000 shares were reissued at ₹ 80 per share fully paid. Which of the following amount of share forfeiture account will be transferred to Capital Reserve Account?
(a) 90,000
(b) 1,80,000
(c) 3,60,000
(d) 2,70,000

Directions (52-53): Read the following statement carefully and give the answer:
Harish Fireworks Ltd is authorized to issue shares 5,00,000 of ₹ 100 each. Company raised the capital by issue of 2,00,000 shares through e-IPO. As per the decision of Managing Board of Directors of company, company issued 75,000 shares to their parent company and 40,000 shares issued to existing employees of company as per their choice and option at the below price than the market price.

Q52. "Company issued 75,000 shares to their parent company" is an example of ______.
(a) Public Issue
(b) Private Placement
(c) ESOP
(d) Issue other than cash

Q53. “40,000 shares issued to existing employees of company as per their choice and option at the below price than the market price.” Is an example of _______
(a) Public Issue
(b) Private Placement
(c) ESOP
(d) Issue other than cash

Q54. According to Section 43 of the Companies Act, 2013, the share capital of the company consists of:
(a) Equity shares with voting rights
(b) Equity shares with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed
(c) Preference share capital
(d) All of these

Q55. Which of the following statements is true regarding the role of chartered companies in the history of international trade?
(a) Chartered companies played a major role in promoting international trade and colonization.
(b) Chartered companies were responsible for promoting fair trade practices and protecting the interests of local communities.
(c) Chartered companies had little impact on international trade and were primarily focused on domestic markets.
(d) Chartered companies were responsible for promoting the use of new technologies in international trade

Q56. What is the difference between a subsidiary company and a joint venture?
(a) A subsidiary company is wholly owned by a parent company, while a joint venture is owned by multiple shareholders.
(b) A subsidiary company is established in a foreign country, while a joint venture is established within the parent company's home country.
(c) A subsidiary company operates independently of the parent company, while a joint venture involves collaboration between multiple companies.
(d) A subsidiary company and a joint venture are the same thing.

Q57. Which one of the following is not included in the conditions for issue of non-equity shares?
(a) Special resolution must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.
(b) No company will be permitted to convert shares with voting rights into shares without voting rights
(c) Only 20 per cent of the paid-up capital of the company can be issued as equity shares without voting rights.
(d) Both private and public companies, limited by shares, can issue non-voting rights equity shares

Q58. Statement 1: The income statement shows the company's revenue, expenses, and net income or loss during the accounting period.
Statement 2: The income statement is prepared at the end of the accounting period to summarize the company's financial performance.
Choose the correct answer:
(a) Both the statements are true
(b) Both the statements are false
(c) Statement 1 is true, statement 2 is false
(d) Statement 1 is false, statement 2 is true

Q59. Statement I: The debit side of P&L Appropriation account shows the following items:
- **Balance of surplus brought forward from previous year.**
- **Net Profit for the year.**
- **Amount withdrawn from general reserve or any other reserve.**
- **Income tax provision no longer required or excess provision written back.**

Statement II: The credit side of P&L Appropriation account shows the following items:
- **Transfer to reserve/general reserve.**
- **Debenture redemption account.**
- **Transfer to dividend/interim dividend/proposed dividend.**
- **Dividend Distribution Tax (If applicable).**
- **Income tax for previous years) not provided for.**
- **Surplus transferred to balance sheet.**

In the context of given statement, mark the correct option.
(a) Both the statements are true
(b) Both the statements are false
(c) Statement 1 is true, statement 2 is false
(d) Statement 1 is false, statement 2 is true

Q60. Which of the following statements is true about Tax Collected at Source (TCS)?
A. TCS represents the tax collected by the buyer from the seller at the time of sale.
B. Section 206C of the Income-tax Act does not specify the categories of goods and the %age of TCS to be collected by the seller from the buyers.
C. Any seller of goods can collect tax at source from the buyers.
D. The section exempts public sector companies, Central or State Governments, Embassies, etc. from the scope of TCS.
E. The specified tax collector is not liable to pay interest of 1% per month if he doesn't collect the tax or doesn't pay it to the government before or on the due dates.
(a) A, B only
(b) C only
(c) D only
(d) C, D, E

Q61. Which of the following statements is true about income tax?
A. Income tax is a tax levied on the income earned by individuals and entities in a financial year.
B. The income tax rate is the same for all taxpayers regardless of their income.
C. Income tax is the only tax levied by the government on individuals and entities.
D. Only employed individuals are required to pay income tax.
E. Income tax returns cannot be filed by taxpayers if they have no taxable income.
(a) A only
(b) B, D only
(c) A, C, E
(d) C, D, E

Q62. Which of the following statements is true regarding the classification of income heads?
A. Income from salary is a separate income head under the Income Tax Act, and it includes any payments received by an employee in the form of salary, wages, pension, or gratuity.
B. Income from rent received by an individual is classified as business income.
C. Income from capital gains is not a separate income head, but it is classified under the head of 'Income from Other Sources'.
D. Income from dividends received by an individual is classified as income from capital gains.
E. Income from freelance work done by an individual is classified as income from salary.
(a) A only
(b) B, D only
(c) A, C, E
(d) C, D, E

Q63. Match the following terms related to Tax Deducted at Source (TDS) with their correct definitions:

A. Deductor **B. Deductee** **C. Tax Deduction Account Number (TAN)** **D. Tax Deducted at Source (TDS)** **E. Refund**	**1. The tax deducted by the deductor before making the payment.** **2. The person or company receiving the payment after TDS has been deducted.** **3. A unique 10-digit alphanumeric number is required by the deductor to deduct TDS.** **4. The person or company that deducts TDS before making a payment and deposits it with the government** **5. The amount claimed by the deductee as tax paid, which can be refunded if the tax liability is less than the TDS.**

(a) A-3; B-2; C-4; D-5; E-1
(b) A-4; B-2; C-3; D-1; E-5
(c) A-1; B-2; C-4; D-3; E-5
(d) A-4; B-5; C-2; D-1; E-3

Q64. Which of the following statements is true regarding the different tax classifications of entities under the Income Tax Act?
A. Both domestic and foreign companies are included under the classification of a company, and they are taxed on their income in India as Corporate Income Tax (CIT).
B. Individuals and companies are taxed at the same rate.
C. A Firm is not considered a separate legal entity for income tax purposes.
D. Local authorities are not taxed under the Income Tax Act.
E. Artificial Juridical Person (AJP) is not a recognized tax classification under the Income Tax Act.
(a) A only
(b) B only
(c) C, D only
(d) C, D, E

Q65. Rajan is a salaried employee who works in TechSoft, a software company. He recently received a notice from the Income Tax Department asking him to clarify the sources of his income. Rajan has income from multiple sources and is unsure about how to classify them under the appropriate income heads. His income is as follows:
A. Salary from TechSoft Rs 50,000
B. Sale proceeds of Jewellery held under his name 1,00,000
C. Winnings from Horse Race Rs. 5000
D. Rent from property held under his name Rs. 25000
E. Income from his part-time online business Rs 6000
F. Rent from property held under his wife's name Rs. 25000
Classify the following income under the correct income heads.
(a) A. Income from Salary
B. Income from Capital Gains
C. Income from Other Sources
D. Income from House Property
E. Income from Business/Profession
F. Income from Other Sources
(b) A. Income from Business/Profession
B. Income from Other Sources
C. Income from Business/Profession
D. Income from House Property
E. Income from Business/Profession
F. Income from Other Sources
(c) A. Income from Salary
B. Income from Business/Profession
C. Income from Other Sources
D. Income from Business/Profession
E. Income from Other Sources
F. Income from House Property
(d) A. Income from Salary
B. Income from Business/Profession
C. Income from Capital Gains
D. Income from House Property
E. Income from Business/Profession
F. Income from House Property

Q66. ABC Ltd. is a company that pays salaries to its employees on a monthly basis. The company has a total of 500 employees, and the monthly salary paid to each employee ranges from Rs. 25,000 to Rs. 1,00,000. As per the Income Tax Act, ABC Ltd. is required to deduct Tax Deducted at Source (TDS) from the salary payments made to its employees.
Which of the following statements is true regarding TDS in this case study?
A. TDS applies only to interest and dividend payments and not to salary payments.
B. ABC Ltd. is not required to deduct TDS if the monthly salary paid to an employee is less than Rs. 50,000.
C. The person or company that deducts the TDS before making the payment is called the deductee.
D. ABC Ltd. is responsible for depositing the TDS with the government before making the salary payments.
E. TDS is claimed as a tax paid by the deductor and not by the deductee.
(a) A, B only
(b) B only
(c) D only
(d) C, D, E

Q67. Match the following:

A. 80D **B. 80E** **C. 80G** **D. 80QQB** **E. 80RRB** **F. 80TTA** **G. 80TTB**	**1. Deduction in respect of royalty income, etc., of authors of certain books other than textbooks** **2. Deduction in respect of health insurance premia.** **3. Deduction in respect of interest on loans taken for higher education.** **4. Deduction in respect of donations to certain funds, charitable institutions, etc.** **5. Deduction in respect of royalty on patents.** **6. Deduction in respect of interest on deposits in savings accounts.** **7. Deduction in respect of interest on deposits**

(a) A-3; B-2; C-4; D-5; E-1, F-6, G-7
(b) A-4; B-2; C-3; D-1; E-5, F-7, G-6
(c) A-2; B-3; C-4; D-1; E-5, F-6, G-7
(d) A-4; B-5; C-2; D-1; E-3, F-6, G-7

Q68. ABC Pvt. Ltd. is a domestic company that has been operating in India for several years. It has been paying taxes as per the normal tax rates applicable to domestic companies. However, the management of ABC Pvt. Ltd. is interested in availing the reduced corporate tax rate available under Section 115BAA of the IT Act. Which of the following statements is true in this regard?
(a) ABC Pvt. Ltd. can opt for the reduced tax rate under Section 115BAA only if it meets certain conditions specified in the ordinance.
(b) ABC Pvt. Ltd. cannot opt for the reduced tax rate under Section 115BAA if it has been availing of exemptions/incentives.
(c) Once ABC Pvt. Ltd. opts for the reduced tax rate under Section 115BAA, it cannot subsequently withdraw from it.
(d) All of the above.

Q69. Mr Sharma, an NRI, earned a gross income of Rs. 8,50,000 in the financial year 2021-22. He also has a financial interest in an entity located outside of India. Which of the following statements is true?
A. Mr Sharma is not required to file an income tax return.
B. Mr Sharma is required to file an income tax return only if he wants to claim an income tax refund.
C. Mr Sharma is required to file an income tax return only if he wants to carry forward a loss under a head of income.
D. Mr Sharma is required to file an income tax return because his gross total income exceeds the threshold exempt income for that assessment year and he has a financial interest in an entity located outside of India.
E. Mr Sharma is required to file an income tax return because he is an NRI.
(a) A, B only
(b) C, E only
(c) B only
(d) D only

Q70. Which of the following statements is true about deferred tax liability (DTL)?
A. DTL arises when the tax paid by a company in a particular year is higher than the tax calculated as per the tax laws for that year.
B. DTL arises when the tax calculated as per the tax laws is higher than the tax paid by a company in a particular year.
C. DTL is a liability that arises due to the difference between the carrying value of an asset or liability in the financial statements and its tax base.
D. DTL is a liability that arises due to the difference between the carrying value of an asset or liability in the tax returns and its financial statements.
E. DTL is a liability that arises due to the difference between the tax paid by a company in a particular year and the tax paid by another company in the same year.
(a) B only
(b) C only
(c) A, C
(d) C, D

Q71. Which of the following statements correctly describes the difference between direct and indirect taxes?
A. Direct taxes are levied on goods and services, while indirect taxes are imposed on individuals' income.
B. Direct taxes are paid directly by individuals or entities to the government, while indirect taxes are collected by intermediaries and then paid to the government.
C. Direct taxes can be shifted from one person to another, while indirect taxes cannot be transferred.
D. Direct taxes have a fixed rate, while indirect taxes have a progressive rate based on the taxpayer's income.
E. Direct taxes include sales tax, while indirect taxes include income tax.
(a) B only
(b) C only
(c) A, C
(d) C, D

Q72. Match the following terms related to Goods and Services Tax (GST) with their descriptions:

A. GST **B. SGST** **C. CGST** **D. IGST** **E. UGST**	**1. A comprehensive tax that subsumes almost all the indirect taxes except a few State taxes** **2. Applicable for Union Territories like Chandigarh, Andaman and Nicobar Islands, etc.** **3. Levied by the Central Government for transactions made within a single state** **4. A destination-based tax on the consumption of goods and services** **5. Levied by the Central Government for inter-state transactions and imported goods or services**

(a) A-3; B-2; C-; D-5; E-1
(b) A-1; B-3; C-3; D-5; E-2
(c) A-1; B-2; C-4; D-3; E-5
(d) A-4; B-5; C-2; D-1; E-3

Q73. Which among the following constitutes the advantages of GST?

1. **With GST, the complexity of the tax structure due to the multiplicity of taxes and tax rates will be reduced considerably. The administration of the taxation system in the country will be more effective.**
2. **GST will make Indian trade and industry more competitive as it is expected to reduce the cost of production and inflation in the economy. GST will help in developing a seamless Indian market which will significantly enhance the growth of the economy**
3. **GST is aimed at broadening the tax base and also at better tax compliance.**
4. **The foundation of the GST regime in India is a comprehensive IT system. All taxpayer services such as Registrations, Payments, returns etc. will be available to the taxpayers online. This will make compliance easy and transparent.**
5. **It will improve the ease of doing business as the GST will ensure that indirect tax rates and structures are uniform across the country.**
6. **Elimination of cascading taxes will result in a reduction in the prices of goods and services.**
7. **GST is charged only on the component of value addition at each stage to ensure that there is no 'tax on tax'.**

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

Q74. ABC Bank is one of the leading banks in India, providing a wide range of banking services to its customers. With the implementation of Goods and Services Tax (GST) in the country, ABC Bank faces certain challenges and impacts related to GST compliance.
Due to the widespread number of branches, the registration process becomes a hassle. Previously, banks with pan-India operations could manage their service tax compliance through a single 'centralized' registration. Additionally, the compliance burden has also increased in terms of filing returns, making tax payments, and providing detailed information on these returns.
The Input Tax Credit (ITC) utilization for the bank has also undergone changes.
Which of the following options best describes the impact of GST registration on ABC Bank?
(a) The bank can continue using a centralized registration for all states under GST.
(b) The bank needs to obtain a separate registration for each state where they operate under GST.
(c) The bank is exempt from GST registration requirements.
(d) The bank is not required to file GST returns due to its pan-India operations.

Q75. Which of the following statements is true regarding the issues related to revenue recognition under GST?

A. Actionable claims, which were not subject to taxation under Service Tax, are now included in the definition of supply of goods under GST.

B. The place of supply for account-linked financial services is based on the location of the recipient of services, not the service provider.

C. GST on banking transaction fees in financial services has increased to the 18% tax bracket, rather than being reduced.

D. Bank branches providing services to each other are not exempt from GST; they are taxable, although they can claim input tax credit later.

(a) A, C

(b) B, D

(c) All of the above

(d) None of the above

Q76. Which among the following is not an advantage of Cost Accounting?

A. Deciding the price of products and services

B. Decide on eliminating/ reducing the production of certain products and increasing the production of some others

C. Reducing wastage of materials and other resources

D. Inventory management

E. Comparing actual costs with cost standards or estimates

F. Develop strategies during recession or intense competition

(a) A, B

(b) C, D

(c) All of the above

(d) None of the above

Q77. ABC Company is a manufacturing firm that produces automobile parts. They are analyzing their production costs and categorizing them into fixed, variable, and semi-variable costs.

Which of the following statements is true regarding fixed, variable, and semi-variable costs in the context of ABC Company?

A. Fixed costs remain the same regardless of the level of production, while variable costs vary with the level of production.

B. Semi-variable costs are entirely fixed and do not change with the level of production.

C. Rent and salaries of the production staff are examples of variable costs for ABC Company.

D. Depreciation on plant and machinery is an example of a semi-variable cost for ABC Company.

E. The cost of raw materials for ABC Company is an example of a fixed cost.

(a) A only

(b) E only

(c) A, C, E

(d) B, D, E

Q78. Which of the following statements is true regarding the impact of GST on the banking sector in India?

A. Banks are exempted from GST compliance due to the complexity of their operations.
B. Banks with pan-India operations can continue to discharge their GST compliance through a single 'centralized' registration.
C. GST has increased the compliance burden for banks in terms of registration and filing of returns.
D. Input Tax Credit for banks remains unchanged under the GST regime.
E. Assessment and adjudication processes have become simpler and more streamlined for banks under GST.

(a) A only
(b) C only
(c) A, C, E
(d) B, D, E

Q79. Which of the following statements is true regarding marginal costing?

A. Marginal costing is a cost accounting technique that considers only variable costs in the determination of product costs.
B. Marginal costing takes into account both fixed and variable costs in the determination of product costs.
C. Marginal costing is used to calculate the total cost of production by summing up all costs, both fixed and variable.
D. Marginal costing is only applicable to service-based industries and not for manufacturing industries.
E. Marginal costing is the same as absorption costing, and the terms can be used interchangeably.

(a) A only
(b) C only
(c) A, C, E
(d) B, D, E

Q80. Match the following types of costing with their descriptions:

A. Absorption costing B. Activity-based costing (ABC) C. Standard costing D. Job costing E. Process costing	1. Costing method used for mass production industries where units are produced in a continuous flow 2. Allocates all costs, both fixed and variable, to products or services 3. Costing method used for unique, custom-made products or projects 4. Involves assigning costs based on the specific activities and resources consumed by each product or service 5. Establishes predetermined standards for costs and compares them with actual costs to analyze variances

(a) A-3; B-2; C-; D-5; E-1
(b) A-1; B-3; C-3; D-5; E-2
(c) A-1; B-2; C-4; D-3; E-5
(d) A-2; B-4; C-5; D-3; E-1

Q81. Which among the following is not a distinction Between Job and Contract

(a) The work is usually carried out at a site different from the contractor's workplace, in a contract. In the execution of a job, the job is usually carried out at the contractor's workplace.

(b) A contract and a job are differentiated on the basis of size and time taken also. Contracts are usually larger and take longer time compared to jobs.

(c) In a contract, most of the costs are of direct nature, unlike in a job

(d) In costing a contract, each contract is treated as a cost unit while in contract costing, there can be more than one cost unit.

Q82. Which of the following statements is true regarding budgetary costing?

A. Budgetary costing is a technique used to prepare budgets for various cost elements within an organization.

B. Budgetary costing is a method of allocating costs to different departments within an organization.

C. Budgetary costing focuses on calculating the actual costs incurred during a specific budgetary period.

D. Budgetary costing is used to determine the profitability of a project or investment.

E. Budgetary costing is a cost accounting technique that only considers fixed costs in the budgeting process.

(a) A only

(b) B only

(c) A, B, C

(d) B, D, E

Q83. Which among the following is a feature of process costing?

1. **The production process is standard and continuous and the products are homogeneous**
2. **Output of one process becomes the raw material of the next process**
3. **As the product travels from one process to another it accumulates cost**
4. **The cost accumulated in each process consists of both direct and indirect(overhead) costs**
5. **The stock of work-in-process is expressed in terms of equivalent units**
6. **The cost of normal wastage is included in the cost of the process and allocated to the total units produced**
7. **An important feature of process costing is that direct material costs are added at the beginning of the process, while all other costs are gradually added during the production process**

(a) 1,2,4,5,7

(b) 1,2,3,4,6

(c) 3,4,5,6,7

(d) All of the above

Solutions

S1. Ans.(b)

Sol.

A. <u>Meaning and Definition of Financial Management</u>

To understand the meaning of Financial Management, one must understand the meaning of both words 'financial' and 'management' separately. 'Financial' means procuring sources of money supply and allocation of these sources on the basis of forecasting monetary requirements of the business.

The word 'Management' refers to planning, organization, co-ordination and control of human activities and physical resources for achieving the objectives of an enterprise.

Thus, financial management is that part of business management which is concerned with the planning and controlling of firm's financial resources.

Financial management refers to the management of finance. It is the effective & efficient utilization of financial resources. It means creating a balance among financial planning, procurement of funds, profit administration & sources of funds.

B. There are two objectives of financial management i.e., Profit Maximization and Wealth Maximization. Under profit maximization objective, business firms attempt to adopt those investment projects, which yields larger profits, and drop all other unprofitable activities. In maximizing profits, input-output relationship is crucial, either input is minimized to achieve a given amount of profit or the output is maximized with a given amount of input. Thus, this objective of the firm enhances productivity and improves the efficiency of the firm.

C. Profit maximization is the traditional and narrow approach, which aims at maximizing the profit of the concern. It is also called as cashing per share maximization.

D. The wealth maximization (also known as value maximization or net present worth maximization) is also universally accepted criterion for financial decision making. The value of an asset should be viewed in terms of benefits it can produce over the cost of capital investment. This is also known as net present worth maximization approach; it takes into consideration the time value of money. Its operational features satisfy all the three requirements of a suitable operational objective of financial courses of action i.e., quality of benefits, timing of benefits and exactness.

S2. Ans.(d)

Sol. <u>Arguments in Favour of Profit Maximization</u>

The following arguments are advanced in favour of profit maximization as the objective of business:

1. **Profit is the Test of Economic Efficiency:** It is a measuring rod by which the economic performance of the company can be judged.
2. **Efficient Allocation of Fund:** Profit leads to efficient allocation of resources as resources tend to be directed to uses which in terms of profitability are the most desirable.
3. **Social Welfare:** It ensures maximum social welfare, i.e., maximum dividend to shareholders, timely payments to creditors, more and more wages and other benefits to employees, better quality at cheaper rate to consumers, more employment to society, and maximization of capital to the owners.
4. **Internal Resources for Expansion:** Retained profits can be used for expansion and modernization. Thus, lot of botherations of borrowings can be avoided.
5. **Reduction in Risk and Uncertainty:** Once huge profits are availed the company develops the risk bearing capacity. The gross present value of a course of action is found out by discounting or capital sating its benefits at a rate which reflects their timing and uncertainty. A financial action which has positive net present value creates wealth and therefore, is desirable. The negative present value should be rejected.

6. **More Competitive:** More and more Profit enhances the competitive spirit thus, under such condition's firms having more and more profits can survive. Therefore, Profit maximization should be the aim of every business.
7. **Desire for Controls:** More and more profits do not add new shareholders as internal resources are used for expansion and modernization. Under such situation control of the company remains in the same hands.
8. **Basis of Decision-Making:** In all businesses profit earning capacity is the sound basis of decision-making.

S3. Ans.(b)

Sol. Functions of Financial Management

The functions of financial management are as follows:

1. **Investment Decision:** The investment decision relates to the selection of assets in which funds will be invested by a firm. The assets which can be acquired fall into two broad groups:

a. Long-term assets which will yield a return over a period of time in future,
b. Short-term or current assets defined as those assets which in the normal course of business are convertible in to cash usually within a year.

Accordingly, the asset selection decision of a firm is of two types. The first of these involving the first category of assets is popularly known in the financial literature as capital budgeting. The aspect of financial decision-making with reference to current assets or short-term assets is popularly designated as working capital management.

2. **Financing Decision:** The second major decision involved in financial management is the financing decision. The investment decision is broadly concerned with the asset-mix or the composition of the assets of a firm. The concern of the financing decision is with the financing-mix or capital structure or leverage. The term capital structure refers to the proportion of debt (fixed-interest sources of financing) and equity capital (variable-dividend securities/sources of funds). The financing decision of a firm relates to the choice of the proportion of these sources to finance the investment requirements.
3. **Dividend Policy Decision:** The third major decision of financial management is the decision relating to the dividend policy. The dividend decision relating to the dividend policy. The dividend decision should be analyzed in relation to the financing decision of a firm. Two alternatives are available in dealing with the profits of a firm: they can be distributed to the shareholders in the firm of dividends or they can be retained in the business which course should be followed-dividend or retention.
4. **Liquidity Decision:** Liquidity decision is concerned with the management of current assets. Basically, this is Working Capital Management; Working Capital Management is concerned with the management of current assets. It is concerned with short-term survival. Short term-survival is a prerequisite for long-term survival

S4. Ans.(a)

Sol. Importance of Financial Management

Some of the importance of the financial management is as follows:

1. **Financial Planning and Control:** Finance is a base for all the business activities. Business activities should be not only harmonized but also planning determination and implementation offer analysis of finance. All activities revolve around the finance. So, finance planning and control are important function.

2. **Essence of Managerial Decision:** Financial management provides a sound base to all managerial decisions. Financial management is the focal point in the process of decision making. Production, sales, employees, research & development decisions are based on financial management.
3. **Improve Profitability:** Profitability of the concern purely depends on the effectiveness and proper utilization of funds by the business concern. Financial management helps to improve the profitability position of the concern with the help of strong financial control devices such as budgetary control, ratio analysis and cost volume profit analysis.
4. **Financial Management is a Scientific & Analytical Analysis:** In the process of decision making and financial analysis modern mathematical techniques are used. It requires not only a feeling for the situation & an analytical skill, but also a thorough knowledge of the techniques and tools of financial analysis & the knowledge to apply them & interpret the results.
5. **Continuous Administration Function:** In older times financial management was used periodically and its importance was limited to the procurement of funds but in modern times finance is a continuous administrative function. Its relation is with the procurement of capital, sources of funds, capital budgeting decisions etc.
6. **Centralized Nature:** All business activities are centrally administered & control. All financial decisions in business are taken at a central point. Functional areas such as marketing & production are decentralized in the modern industrial concern, but financial co-ordination and control are achieved through centralization.
7. **Basis of a Managerial Process:** Financial management is the basis of whole management process, such as planning, co-ordination and control. According to sound financial planning all other plans are executed & controlled.
8. **Measure of Performance:** Financial management deals with risk & uncertainty factors which are directly hit by profitability and risk.

S5. Ans.(c)
Sol. **<u>Functions of Indian Financial System</u>**
A good financial system serves in the following ways:
1. **Link between Savers and Investors:** One of the important functions of a financial system is to link the savers and investors and thereby help in mobilizing and allocating the savings efficiently and effectively. By acting as an efficient medium for allocation of resources, it permits continuous up gradation of technologies for promoting growth on a sustained basis.
2. **Helps in Projects Selection:** A financial system not only helps in selecting projects to be funded but also inspires the operators to monitor the performance of the investment. It provides a payment mechanism for the exchange of goods and services, and transfers economic resources through time and across geographic regions and industries.
3. **Allocation of Risk:** One of the most important functions of a financial system is to achieve optimum allocation of risk bearing. It limits, pools, and trades the risks involved in mobilizing savings and allocating credit. An efficient financial system aims at containing risk within acceptable limits and reducing the cost of gathering and analyzing information to assist operators in taking decisions carefully.
4. **Information Available:** It makes available price-related information which is a valuable assistance to those who need to take economic and financial decisions.

5. **Minimizes Situations of Asymmetric Information:** A financial system minimizes situations where the information is asymmetric and likely to affect motivations among operators or when one party has the information and the other party does not. It provides financial services such as insurance and pension and offers portfolio adjustment facilities.
6. **Reduce Cost of Transaction and Borrowing:** A financial system helps in the creation of a financial structure that lowers the cost of transactions. This has a beneficial influence on the rate of return to savers. It also reduces the cost of borrowing. Thus, the system generates an impulse among the people to save more.
7. **Promotion of Liquidity:** The major function of the financial system is the provision of money and monetary assets for the production of goods and services. There should not be any shortage of money for productive ventures. In financial language, the money and monetary assets are referred to as liquidity. In other words, the liquidity refers to cash or money and other assets which can be converted into cash readily without loss. Hence, all activities in a financial system are related to liquidity - either provision of liquidity or trading in liquidity.
8. **Financial Deepening and Broadening:** A well-functioning financial system helps in promoting the process of financial deepening and broadening. Financial deepening refers to an increase of financial assets as a percentage of the Gross Domestic Product (GDP). Financial broadening refers to building an increasing number and a variety of participants and instruments.

S6. Ans.(c)

Sol. *There are six steps involved in financial planning. These are:*

1. **Establish corporate objectives:** The first step in financial planning is to establish corporate objectives. Corporate objectives can be grouped into qualitative and quantitative. For example, a company's mission statement may specify "create economic - value added." However, this qualitative statement has to be stated in quantitative terms such as a 25 % ROE or a 12 % earnings growth rates. Since business enterprises operate in a dynamic environment, there is a need to formulate both short run and long run objectives.
2. **Formulate strategies:** The next stage in financial planning is to formulate strategies for attaining the defined objectives. Operating plans helps achieve the purpose. Operating plans are framed with a time horizon. It can be a five-year plan or a ten-year plan.
3. **Delegate responsibilities:** Once the plans are formulated, responsibility for achieving sales target, operating targets, cost management bench-marks, profit targets are to be fixed on respective executives.
4. **Forecast financial variables:** The next step is to forecast the various financial variables such as sales, assets required, flow of funds and costs to be incurred. These variables are to be translated into financial statements. Financial statements help the finance manager to monitor the deviations of actual from the forecasts and take effective remedial measures. This ensures that the defined targets are achieved without any overrun of time and cost.
5. **Develop plans:** This step involves developing a detailed plan of funds required for the plan period under various heads of expenditure. From the plan, a forecast of funds that can be obtained from internal as well as external sources during the time horizon is developed. Legal constrains in obtaining funds on the basis of covenants of borrowings is given due weight-age. There is also a need to collaborate the firm's business risk with risk implications of a particular source of funds. A control mechanism for allocation of funds and their effective use is also developed in this stage.
6. **Create flexible economic environment:** While formulating the plans, certain assumptions are made about the economic environment. The environment, however, keeps changing with the implementation of plans. To manage such situations, there is a need to incorporate an inbuilt mechanism which would scale up or scale down the operations accordingly.

S7. Ans.(b)

Sol. Partnership Firm: Partnership Firms in India are governed by the Indian Partnership Act, 1932. As per Section 4 of the Indian Partnership Act: "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. From this definition, the following points are clear:

a. It is an association of two or more persons

b. There is an agreement/contract between the persons

c. The agreement is to carry on a business with the object of sharing profits

d. The business is to be carried on by all or any of them acting for all.

The persons involved in the agreement are called partners and the entity created for the business is called partnership firm. The liability of each partner is unlimited unlike a Limited Liability Company (LLC).

The Indian Partnership Act does not mention anything about the maximum no. of partners in a partnership firm but as per the Companies Act 2013 and The Companies (Miscellaneous) Rules, 2014, a partnership can have a maximum of 50 persons.

A company can also be a partner in a partnership firm. The partnership firm may be registered but it is not mandatory. A partnership has no separate legal status apart from its partners.

S8. Ans.(c)

Sol. Hindu Undivided Family (HUF): HUF is a form of business organisation existing only in India and is governed by the provisions of the Hindu Law. It is different from a partnership firm as it comes into existence not out of any contract but birth in a Hindu family. The firm is owned by the members of undivided Hindu family, called co-parceners. The business of an HUF is typically managed by the senior-most male member, also known as Karta or Manager. For the sake of income tax, the HUF is considered as a separate entity and is taxed separately.

Company: A company is an association of persons who contribute money or money's worth to a common stock and use it for a common purpose. It is created by law and effected by law. It is a legal person just as much as an individual but with no physical existence. Section 2 (20) (Chapter D) of the Companies Act, 2013, defines a company as - A company incorporated under this Act, or Under any previous Company law.

S9. Ans.(a)

Sol. FINANCIAL DECISIONS IN A FIRM

Financial decisions in a firm mainly relate to the acquisition and utilization of capital funds in meeting the financial needs and overall objectives of the firm. Therefore, the primary function of finance department is to acquire capital funds and put them to proper use, as per firm's objectives. Financial decisions in an organisation, normally, relate to the following:

1. Estimating the capital requirements: The capital requirements are estimated based on the organizational objectives. Depending upon the market share aimed by the organisation, the investment in fixed assets and requirement of working capital is estimated.

2. Deciding the capital structure/composition: This is one of the most crucial aspects of success of the organisation in achieving its objectives.

The composition of debt and equity plays a very important role for profitability and sustainability of the operations. A high proportion of debt may result in profitability declining to dangerous level causing problems in servicing of debt and thus, affecting the viability of the operations. On the other hand, a low debt may result in underutilization of the organization’s potential to earn profit and provide reasonable return to the owners.

3. Deciding on sources of funds: Once the capital structure is decided, the best available sources for these are to be identified. For example; if more capital is required, it may come through equity or preference issue. The equity could be raised through right or public issue or private placement. The long-term funds can be raised through public deposits, debentures or term loans from banks. Each source of funds has its own merits and demerits. Optimizing the firm's Weighted Average Cost of Capital, while deciding on the sources of finance, is one of the key objectives.

4. **Corporate strategy/mergers and acquisitions:** The corporate strategy on growth of the organisation may involve both organic and inorganic growth. Organic growth means expansion of business by creating additional capacity by adding more fixed assets. Inorganic growth means acquiring the businesses of other firms. This route of mergers and acquisitions, for expansion, has the benefit of time as creation of fresh capacity is time consuming. An additional benefit may be reduction in competition if the target firm is in the same business as the acquiring firm.

S10. Ans.(d)

Sol. **FUNDAMENTAL PRINCIPLES OF FINANCE**

Time Value of Money: An important principle of finance is that money has time value. A rupee received today is more valuable than a rupee received in the future. This is not only because of inflation but also because the money has earning power by proper investment and, therefore, a person would be willing to pay interest for borrowing money.

Opportunity Cost of Money: Opportunity cost implies that if a person deploys his money on one investment, then he has to give up the opportunity to put this money on some other investment. This concept is applied not only for evaluating new investment decisions but also retaining old assets. If the return from old assets is lower than the opportunity cost, a finance manager may decide to dispose them off to create new assets which will give
a better return.

Risk and Return: The principle of Risk and Return implies that an investment contains both the reward of profit and risk of loss. Normally, higher the risk higher the rates of return and lower the risk, lower the rates of return.

Therefore, an investor has measure both risk and reward before taking a decision.

Liquidity and Return: The principle of Liquidity and Return is very important every investor. Liquidity indicates the marketability of the investment or the easy with which he may get cash by selling the investment. But it is possible that a liquid investment does not give the desired return to the investor. Therefore, the investor has to strike a balance between the two.

Diversification: This principle of Diversification implies that the risk should be spread over many investments instead of putting all the money in one or two investments. It follows the idiom, "never put all your eggs in one basket".

Reducing asset-liability mismatch/Hedging: This principle implies that, as far as feasible, long-term fund requirements should be met from long-term sources and short-term fund requirements should be met from short-term sources.

Cash Flow: The cash flow principle involves two aspects. First: it balances the cash inflows and outflows during a period, to ensure adequate liquidity. Second: it follows the time value of money principle by appropriately discounting the cash inflows to their present value.

S11. Ans.(a)

Sol. <u>RISK-RETURN TRADE OFF</u>

The risk-return tradeoff means that the potential return rises when a higher risk is taken, and vice versa.

Financial decisions of a firm are often guided by the risk-return trade off. Risk may be defined as the possibility that the actual return from an investment will be less than the forecast return.

Risk is inherent in every investment, though its scale varies. In order to increase the possibility of higher return, the firm needs to increase the risk taken. On the other hand, if it does not want to take high risk, it has to be content with low return.

Depending upon the risk-taking ability, investment objectives, and the time horizon available to achieve it, a firm has to find the optimal combination of risk and return in a financial decision.

A proper balance between return and risk should be maintained to get optimum return from the investment. Such balance is called Risk-Return Trade off and every financial decision involves this trade off.

S12. Ans.(c)

Sol. <u>AGENCY PROBLEM IN FINANCIAL MANAGEMENT</u>

An agency problem is a conflict of interest inherent in relationships involving principal and agent. In such relationships, one party is expected to act in the best interest of another party.

An agent is commonly engaged by a principal due to different skill levels, different employment positions, or restrictions on time and access. For example, a shop owner will hire a salesman- the agent to look after sales as he himself is engaged in other activities.

Although the salesman is expected to sell the goods at the maximum price and pay the proceeds to the owner, verification may show that the sales have taken place at lower prices. Thus, the agent gains at the expense of the principal. In financial management, Agency conflict typically arises when there is a separation of ownership and management of a business. in large companies, there is a diverse relationship between management and ownership. The decision taking authority in a company lies in the hand of managers.

Shareholder as owners of a company are the principals and managers are their agents. Members of business management are agents who serve the interests of the shareholders. Agents work for better returns on owners' investment and, in return, the owners reward the managers.

However, in practice, the interests of agent and owner is at conflict, as a high reward, expected by managers, reduces the gains of the owners. The business world is full of conflicts of interest. These take place when people serve their personal interests rather than honestly fulfilling their professional responsibilities.

S13. Ans.(a)

Sol. There are two main theories: Agency Theory and Stakeholder Theory that explain business relationships and are used to understand the conflicts in these relationships. These theories provide a tool to understand the business challenges, especially those caused by clashing business interests.

Agency theory describes the problems that occur when one party representing another party in the business holds different views on key business issues or there is a conflict of interests. The agent may follow personal beliefs to influence in key business decisions. The agent may also choose to act in such a way that his self-interest gets preference instead of the interest of the principal. Agency theory mainly focuses on the interest of shareholders.

The Stakeholder theory highlights the differences of interest between individual groups within an organization, such as the employees, investors, and suppliers as also outside stakeholders like the local community. Stakeholder theory describes the composition of an organization as a collection of various individual groups with different interests. The collective interests of all these groups of stakeholders represent the mission of the organization. Business decisions should take into account the interests of these groups, as much as possible.

S14. Ans.(a)

Sol. **Statement I: Social Responsibility**

According to Shri Narayan Murthy, founder of Infosys, "Social responsibility is to create maximum shareholders value, working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment.

" According to European Union commission, "CSR is a concept whereby companies integrate social and environment concerns in their business operations and in their interaction with their stakeholder on a voluntary basis". This implies that businesses, in addition to maximizing shareholder value, should act in a manner that benefits society. To fulfil its socially responsibility, an enterprise should adopt policies that promote the well-being of society and the environment.

Studies have shown that socially responsible enterprises not only benefit society but also improve sustainability of their business models, have improved marketing, employee satisfaction, brand perception, and customer loyalty.

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

Examples of social responsibility

- Arranging blood donation camps, cataract surgery camps, medical check-up camps etc.
- Advocating and implementing child labour laws
- Collection and Recycling of plastic waste
- Creating food bank
- •Provide night shelter to homeless persons

Setting up sport complexes, providing safe drinking water

Statement II: Importance of business ethics

A company's perception in the eyes of stakeholders as well as the outsiders, is shaped by its business ethics. This perception is very important for the success of the company as it helps in not only in raising resources for the expansion of the business but also makes it a preferred partner for doing business.

A company's business ethics also help it attract the best talent in the industry. Companies which take care of their employees and apply high ethical standards in dealing with them, have high productivity and low attrition rates. The customers of a business entity that treats them ethically, become repeat customers and build an ongoing relationship with the entity. These customers recommend that entity to the people within their contact. The brand value of an entity, known for its high ethical values, keeps growing and helps in increasing its market share.

S15. Ans.(d)

Sol. **EMERGING ROLE OF THE FINANCE MANAGER IN INDIA**

1. **Raising Equity:** Abolition of Capital Issues (Control) Act has helped expansion of the capital market, and has made it easier for the companies to raise resources. However, the investor protection rules and disclosure requirements have been made more stringent resulting in challenges for the finance manager.

2. **Raising debt:** Disappearance of the erstwhile Development Financial Institutions from the Indian financial scene, which used to provide liberalized term loans for long term projects, has resulted in difficulties in raising long term resources, especially infrastructure projects, as the banks face the issue of asset- liability mismatch in providing long term loans. Also, there are rigorous prudential norms and credit risk management framework for banks and financial institutions.
3. **Foreign exchange management:** If a firm has borrowed in foreign currency or if it exports its goods or services, foreign exchange management becomes an important aspect of finance manager's role. Globalization, convertibility of rupee, liberalized foreign investments in India and relaxations in Indian foreign investments and remittances abroad, have changed the earlier scenario. Repeal of Foreign Exchange Regulation Act (FERA) and enactment of a liberalized Foreign Exchange Management Act (FEMA) has also created its own challenges and opportunities for the finance manager.
4. **Dealing with Rating Agencies:** The credit rating of a debt instrument often decides the rate of interest which the firm has to pay for the debt. Providing full information to them and explaining their queries is very important in getting a right credit rating. Also, in case of companies going for foreign issue of debt or equity, the ratings of international rating agencies are crucial in deciding the interest rate or pricing. Finance manager should have the skills to present the case of the company properly to the rating agencies.
5. **Treasury operations:** Many firms derive substantial income from their treasury operations. Growth of mutual funds and emergence of highly innovative financial instruments, have necessitated that the finance manager upgrades his skill to face these emerging changes.

S16. Ans.(a)

Sol. **<u>Statement I: Finance and Economics</u>**

Money is a common factor in both economics and finance. When we hear the word economics, the first thought which comes to our mind is money. Same is the case when we hear the word finance. Many experts see economics and finance as the two sides of the same coin. But this does not mean that economics and finance are exactly the same though they are very similar. Both deal with many similar topics like, goods and services, interest rates, concepts like marginal cost, etc. In fact, finance may be considered a branch of economics.

Economics studies local and global markets, consumer behaviour, supply and demand of goods and services, etc. Finance focuses on aspects related to financial systems like banks, savings, credit, return on investments, etc.

Financial professionals use economic theories to evaluate the outcome of a particular financial decision.

While Economics studies the broader aspects of production and consumption of goods and services, finance is the examination of narrower aspects, usually related to sourcing and managing funds for a particular organisation. The focus of finance is on using the techniques and fools of managing money I achieve the business objectives of an organisation in an efficient manner.

Though both, economic and finance, examine how companies and entrepreneurs evaluate risk and return, historically, economics has been more theoretical and finance more practical.

<u>Statement I: Finance and Accounting</u>

Financial decisions in an organisation, when implemented, result in financial transactions which are recorded by the process of accounting. For example, public issue of equity by a company is recorded in the books of account as credit to capital account and debit to bank account. Similarly, purchase of a machine is recorded as debit to fixed assets account and credit to cash/bank account.

Accounting is not recording of financial transactions alone. It also involves analyzing and summarizing all the financial transactions, during an accounting period, resulting in preparation of financial statements of the organisation.

Financial decisions are for future but they are mostly based on the historical data provided by accounting. A comprehensive and correct data forms the back-bone of correct financial decisions. A financial decision based on scant and unconfirmed data is more likely to go wrong in its purpose.
For example, the balance sheet and P & L accounts become the basis for deciding dividend, retention of profits, acquisition or disposal of fixed assets, raising of further resources etc. Also, cost accounting provides precious data for taking financial decision on pricing, continuation or outsourcing of a particular product, etc.
Thus, we can say that the finance and accounting functions of an organisation are very closely connected with each other. However, it may point out that while the
Financial management involves broader aspects of planning and control of all financial activities, accounting mainly involves recording, analysis and presentation of financial data.

S17. Ans.(a)
Sol. Annual Depreciation Expense = (Original Cost - Salvage Value) / Estimated Useful Life
Salvage Value = ₹0 (assumed)
Annual Depreciation Expense = (₹50,00,000 - ₹0) / 10 = ₹5,00,000
Therefore, the answer is A. ₹5,00,000.

S18. Ans.(d)
Sol. Annual Depreciation Expense = (Original Cost - Salvage Value) / Estimated Useful Life
Salvage Value = ₹0 (assumed)
Annual Depreciation Expense = (₹5,00,000 - ₹0) / 5 = ₹1,00,000
Total Depreciation Expense = Annual Depreciation Expense x Number of Years
Total Depreciation Expense = ₹1,00,000 x 3 = ₹3,00,000

S19. Ans.(b)
Sol. The net book value of an asset is its original cost less accumulated depreciation.
The plant and machinery had an original cost of ₹50,00,000 and an estimated useful life of 10 years. Therefore, the annual depreciation expense for the plant and machinery is ₹5,00,000 (₹50,00,000/10).
As of 31st March 2022, the plant and machinery had been in use for five years. So, the accumulated depreciation for the plant and machinery as of 31st March 2022 would be ₹25,00,000 (₹5,00,000 x 5).
During the current financial year, the company purchased a new plant and machinery for ₹10,00,000 on 1st April 2022. Therefore, the total cost of the plant and machinery as of 31st March 2023 would be ₹60,00,000 (₹50,00,000 + ₹10,00,000).
However, the company also sold the old plant and machinery for ₹2,00,000 on 1st July 2022. As a result, the accumulated depreciation for the old plant and machinery as of 1st July 2022 would be ₹25,00,000 (₹5,00,000 x 5).
The depreciation for the old plant and machinery for the period from 1st April 2022 to 1st July 2022 would be ₹1,25,000 (₹25,00,000 x 3 months/12 months).
Therefore, the net book value of plant and machinery as of 31st March 2023 would be:
₹50,00,000 + ₹10,00,000 - ₹25,00,000 - ₹1,25,000 = ₹33,75,000

S20. Ans.(c)

Sol.

1. CRR - A. An account maintained by the RBI where banks must maintain a certain percentage of their deposits as a reserve.
2. Repo - B. Transactions that involve the sale of securities by the bank to the RBI with an agreement to buy them back at a later date.
3. Reverse Repo - C. Transactions that involve the purchase of securities by the bank from the RBI with an agreement to sell them back at a later date.
4. Clearing/RTGS – D. The process of electronically transferring funds from one bank account to another.
5. Currency Chest Transactions - E. Transactions involving the storage and movement of physical currency between banks and the RBI.
6. Maker Checker Concept - F. The concept of having one person prepare a statement and another person review and approve it.

S21. Ans.(a)

Sol. The purpose of reconciling control and subsidiary records in branch-level accountancy is to ensure that all the subsidiary ledger balances match the control account balance in the general ledger. The main challenge that persists even with computerization is the reconciliation of outstanding entries in the suspense and sundry deposit accounts.

S22. Ans.(d)

Sol. The answer is (d) as all of the above-mentioned transactions result in an inter-office credit or debit entry.

S23. Ans.(b)

Sol. If a forged draft is paid by Branch B, and there is no entry pertaining to the draft in the daily statement of Branch A, the CRD will not be able to match the responding entry, and it will appear as an unreconciled entry in the statement prepared by the department. Follow-up by the staff of CRD will reveal the fact of payment of the forged draft, and further investigation and action will be required to identify and rectify the error. Therefore, option B is the correct answer. Options A, C, and D are incorrect as they do not accurately describe the outcome of the situation. Option E is partially correct but incomplete as it does not account for the investigation and rectification process that would follow the detection of the forged draft.

S24. Ans.(d)

S25. Ans.(c)

In each scenario, Ash applies a specific accounting convention:

Scenario 1: Ash applies the matching principle by expensing the cost of the computer over its useful life of five years. This ensures that the expenses are recognized in the same period as the revenue they help generate.

Scenario 2: Ash applies the conservatism principle by recording the potential liability from the legal claims. The conservatism principle requires businesses to recognize liabilities and losses as soon as they become evident, even if the outcome is uncertain.

Scenario 3: Ash applies the objectivity principle by not recording intangible assets like customer goodwill and brand reputation in her financial statements. The objectivity principle requires financial information to be based on verifiable, factual evidence and not subjective judgments.
Scenario 4: Ashfollows the accrual basis of accounting, which is an accounting convention that requires revenue and expenses to be recognized in the periods when they are incurred, regardless of when the cash is received or paid.

S26. Ans.(b)

S27. Ans.(b)
Sol. Capital expenditures are expenses incurred by a company to acquire, improve, or maintain a long-term asset such as property, plant, or equipment. The cost of replacing old machines with new ones and the cost of renovating the production plant, including the addition of a new wing, are both considered capital expenditures as they improve the company's long-term assets. The cost of purchasing new equipment for the maintenance department, on the other hand, would be considered a revenue expenditure, as it is an expense incurred to maintain the existing assets and keep them in good working condition.
S28 Ans.(a)

S29. Ans.(c)
Sol. In this case, XYZ Company is facing multiple issues that cast significant doubt on its ability to continue as a going concern. These issues include declining revenues, net losses, loan defaults, foreclosure notices, outdated manufacturing facilities, inventory obsolescence, loss of key employees, and inability to secure additional financing. These factors indicate that the company may not be able to continue operating in the foreseeable future.

S30. Ans.(d)

S31. Ans.(c)

S32. Ans.(b)

S33. Ans.(d)

S34. Ans.(c)

S35. Ans.(d)

S36. Ans.(d)

S37. Ans.(a)
Sol. Banks have been advised to maintain separate accounts for various types of transactions put through inter-branch accounts, according to RBI's instructions regarding inter-branch accounts. Therefore, option (a) is the correct answer.
Option (b) is incorrect because RBI has advised the banks that the net debit in one category should not be set-off against the net credit in another category.
Option (c) is incorrect because RBI has advised the banks to make provision against the net debit balance in the inter-branch account in respect of entries outstanding for more than six months.
Option (d) is incorrect because RBI has advised the banks to segregate inter-branch transactions relating to demand drafts from other inter-branch transactions.

S38. Ans.(b)

S39. Ans.()

S40. Ans.(c)
Sol. <u>Total cash receipts</u>
= Rs. 2,500 + Rs. 1,000 + Rs. 2,500 + Rs. 3,000 + Rs. 2,000 = Rs. 11,000
<u>Total cash payments</u>
= Rs. 1,500 + Rs. 1,000 + Rs. 3,000 + Rs. 5,000 + Rs. 2,000 + Rs. 500
= Rs. 13,000

S41. Ans.(c)
Sol. Branches are required to properly prepare and check their daily statements to avoid mistakes such as wrong identification of the type of transaction, errors in writing amounts, and recording the same transaction twice. The other options are incorrect because (a) is not true as all unreconciled entries need to be examined, not just those with a high value; (b) is not entirely true as while artificial intelligence may be used to generate a statement of unreconciled entries, human intelligence is needed to examine and enquire into them; and (d) is not true as the head office does prescribe procedures for handling unreconciled entries, including those not responded to by the branch concerned within a reasonable time.

S42. Ans.(d)
Sol. <u>Bank Reconciliation Statement for Account A:</u>
Balance as per Bank Statement (March 31, 2022) = Rs 10,000
Add: Deposit of April 1, 2022 = Rs 1,000
Add: Deposit of April 25, 2022 = Rs 4,000
Total = Rs 15,000
Less: Check issued on April 10, 2022 = Rs 500
Less: Check issued on April 30, 2022 = Rs 2,000
Adjusted Bank Balance as of April 30, 2022 = Rs 12,500
<u>Bank Reconciliation Statement for Account B:</u>
Balance as per Bank Statement (March 31, 2022) = Rs 15,000
Add: Deposit of April 5, 2022 = Rs 2,500
Add: Deposit of April 15, 2022 = Rs 3,000
Total = Rs 20,500
Less: Check issued on April 20, 2022 = Rs 1,200
Adjusted Bank Balance as of April 30, 2022 = Rs 19,300

S43. Ans.(d)

S44. Ans.(d)

S45. Ans.(c)

Sol. The balance sheet equation is Assets = Liabilities + Equity.

Option 1 rearranges the equation to solve for Liabilities, which becomes Outside Liabilities = Assets - Equity. Equity can be further broken down into Capital and Liabilities, giving Outside Liabilities = Assets - Capital. Option 3 breaks down Equity into Claims of Creditors and Claims of Owners, giving Assets = Claims of Creditors + Claims of Owners + Liabilities. By rearranging the equation, we get Assets = Liabilities + Claims of Creditors + Claims of Owners, which is a variation of the original balance sheet equation.

Option 4 rearranges the original equation to solve for Assets, which gives Assets = Liabilities + Equity. Equity can be further broken down into Capital and Liabilities, giving Assets = Liabilities + Claims of Creditors + Claims of Owners.

S46. Ans.(c)

Sol. The adjustment entries relating to Income and Expenditure are:

1. Some of the expenses may have been incurred but not paid
2. Some of the expenses may have been paid in advance but not incurred
3. Some incomes may have accrued but not received
4. Some incomes may have been received but not accrued

S47. Ans.(a)

Sol. Financial statements are also known as annual reports because they are often prepared on an annual basis to provide information about a company's financial performance and position over the course of a year.

Financial statements are historic in nature because they report on past financial transactions and events that have already occurred. They are used to provide information about a company's financial performance and position for a specific period, such as a year or a quarter, and are not designed to predict future performance or events.

S48. Ans.(d)

Sol. There are different methods of inventory valuation. Indian Accounting Standard (Ind AS 2) permits only FIFO (First In, First Out) or Weighted Average Cost method.

S49. Ans.(d)

Sol. The three conditions that exempt a parent company from presenting consolidated financial statements are:

1. All owners of the subsidiary, including those not otherwise entitled to vote, have been informed about and do not object to, the parent not presenting consolidated financial statements.
2. The subsidiary's debt or equity instruments are not traded in a public market.
3. The ultimate or any intermediate parent produces consolidated financial statements that comply with Ind AS and are available for public use.

S50. Ans.(b)

Sol. When dividend is actually received on due date the pro-rata amount relating to the period after the date of acquisition is entered in the income column (Cr) of the investment account.

S51. Ans.(a)
Sol. Forfeited amount on 12,000 shares (12,000 x 30) ₹ 3,60,000 and only 9,000 shares reissued.
Therefore, on 9,000 shares forfeited money =
(3,60,000 x 9,000) / 12,000 = 2,70,000
Less: Adjusted loss on reissue of shares (9,000 x 20) - (1,80,000)
= ₹ 90,000

S52. Ans.(b)
Sol. Private Placement – Issue of shares to an individual institution other than offer to public in general is called private placement of shares.

S53. Ans.(c)
Sol. ESOP- The Employee Stock Option Plan (ESOP) is referred to as the situation when the company offers share(stock) to its employee to subscribe at a price that is lower than the market price.

S54. Ans.(d)
Sol. According to Section 43 of the Companies Act, 2013, the share capital of a company may consist of equity shares with or without voting rights, preference share capital, and equity shares with differential rights as to dividend, voting, or otherwise, in accordance with the rules prescribed by the Ministry of Corporate Affairs.

S55. Ans.(a)
Sol. Chartered companies were granted monopolies and exclusive trading rights by European monarchs in the 16th to 18th centuries, which allowed them to establish trade relations with countries in Asia, Africa, and the Americas. These companies, such as the British East India Company, the Dutch East India Company, and the French East India Company, were instrumental in promoting international trade by importing valuable goods, such as spices, silk, and cotton, from the East to Europe. They also played a major role in establishing colonies in different parts of the world, which helped them to secure their trading interests and expand their business.

S56. Ans.(a)
Sol. A subsidiary company is a company that is wholly owned by a larger parent company. The parent company has full control over the subsidiary's operations, finances, and decision-making. On the other hand, a joint venture is a business arrangement between two or more companies where they contribute capital, resources, and expertise to establish a new entity that is jointly owned and managed.
Unlike a subsidiary, a joint venture is owned by multiple shareholders, and each shareholder has a say in the decision-making process. Joint ventures are typically established to undertake specific projects or initiatives that require a high level of collaboration and shared expertise. While both subsidiary companies and joint ventures involve ownership of one company by another, the key difference is that a subsidiary is fully owned by one parent company, while a joint venture involves shared ownership between multiple companies.

S57. Ans.(c)

Sol. Conditions for issue of non-voting equity shares are as follows:

- Special resolution must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.
- Both private and public companies, limited by shares, can issue non-voting rights equity shares.
- No company will be permitted to convert shares with voting rights into shares without voting rights.
- Only 25 per cent of the paid-up capital of the company can be issued as equity shares without voting rights.

S58. Ans.(a)

Sol. The income statement is one of the most important financial statements that a company prepares. It shows the company's revenue, expenses, and net income or loss for a specific period of time, typically for a quarter or a year. The purpose of the income statement is to provide stakeholders with an overview of the company's financial performance during the accounting period.

S59. Ans.(b)

Net profit, as arrived at in the P&L A/c, is utilized by the company, for providing dividend, dividend distribution tax, adjustments to income tax and transfer to reserves etc. This is done through the profit and Loss Appropriation account.

Profit and Loss Appropriation account is different from profit and loss account and is normally put below the net profit figure in the same statement. The net profit is transferred to the credit side of profit and loss appropriation account. Profit and Loss account shows only the net profit or net loss from operation of business while the Profit and Loss appropriation accounts shows all non-operational adjustments.

The credit side of this account shows the following items:

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

The debit side of this account shows the following items:

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

A typical format of this account is given below. The items included may vary from company to company.

Dr Cr

Particulars	Amount	Particulars	Amount
To transfer to reserves		By last year's balance brought down	
To debenture redemption reserve		By net profit of the year brought down	
To additional income tax provision for earlier years		By excess income tax provision of earlier years	
To interim dividend			
To dividend/proposed dividend			
To surplus carried over to the balance sheet			
Total		Total	

S60. Ans.(c)
Sol. The section exempts public sector companies, Central or State Governments, Embassies, etc. from the scope of TCS.

S61. Ans.(a)

S62. Ans.(a)

S63. Ans.(b)

S64. Ans.(a)

S65. Ans.(a)
Sol. A. Salary from TechSoft Rs 50,000 - Income from Salary
B. Sale proceeds of Jewellery held under his name Rs. 1,00,000 - Income from Capital Gains
C. Winnings from Horse Race Rs. 5000 - Income from Other Sources
D. Rent from property held under his name Rs. 25000 - Income from House Property
E. Income from his part-time online business Rs 6000 - Income from Business/Profession
F. Rent from property held under his wife's name Rs. 25000 - Income from Other Sources (clubbing provision applies as the property is held by the spouse)

S66. Ans.(c)
Sol. ABC Ltd. is responsible for deducting TDS from the salary payments made to its employees and depositing the same with the government before making the salary payments.
Option A is incorrect as TDS applies to salary payments as well. Option B is incorrect as there is no such provision that exempts TDS if the monthly salary paid to an employee is less than Rs. 50,000. Option C is incorrect as the deductor deducts the TDS before making the payment. Option E is incorrect as the deductee claims the TDS as a tax paid.

S67. Ans.(c)
Sol.
80D: Deduction in respect of health insurance premia.
80E: Deduction in respect of interest on loans taken for higher education.
80G: Deduction in respect of donations to certain funds, charitable institutions, etc.
80QQB: Deduction in respect of royalty income, etc., of authors of certain books other than textbooks
80RRB: Deduction in respect of royalty on patents.
80TTA: Deduction in respect of interest on deposits in savings accounts.
80TTB: Deduction in respect of interest on deposits

S68. Ans.(d)

S69. Ans.(d)

S70. Ans.(b)

S71. Ans.(a)

S72. Ans.(b)
Sol. A. GST - 1. A comprehensive tax that subsumes almost all the indirect taxes except a few State taxes
B. SGST - 3. Levied by the State governments for transactions made within a single state
C. CGST - 3. Levied by the Central Government for transactions made within a single state
D. IGST - 5. Levied by the Central Government for inter-state transactions and imported goods or services
E. UGST - 2. Applicable for Union Territories like Chandigarh, Andaman and Nicobar Islands, etc.

S73. Ans.(d)

S74. Ans.(b)
Sol. Under the GST regime, banks like ABC Bank are required to obtain a separate GST registration for each state where they have operations. This means that ABC Bank needs to go through the registration process multiple times, complying with the regulations of each state where they operate. This change from the earlier centralized registration system increases the administrative burden for the bank.

S75. Ans.(c)

S76. Ans.(d)

S77. Ans.(a)

S78. Ans.(b)

S79. Ans.(a)

S80. Ans.(d)

S81. Ans.(d)
Sol. In costing a contract, each contract is treated as a cost unit while in job costing, there can be more than one cost unit.

S82. Ans.(a)

S83. Ans.()