All India Mock For JAIIB AFM 2023

Directions (1-4): Read the information carefully and answer the questions based on the given information below:

The bank statement shows a balance of Rs.73692. However, it does not agree with the balance as per the bank column of the Cash Book. On scrutiny, the following discrepancies were found.

i. A cheque issued for Rs.25000 was not presented for payment.

ii. A deposit of RS.12000 had not been credited by the bank.

iii. Interest on investment collected by the bank Rs.10584.

iv. A payment of Rs.50000 was received from the customer in cash.

Q1. A Bank Reconciliation Statement is prepared by?

(0.5 Mark)

(a) Banker
(b) Auditor
(c) Business accountant
(d) Registrar

Q2. When the BRS starts with the favorable balance of the bank statement, how will the cash payment received from the customer be treated?

(1 Mark)

(a) Rs.50000 will be added.
(b) Rs.50000 will be subtracted.
(c) Rs.100000 will be added.
(d) Rs.100000 will be subtracted.

Q3. In the given case, what are items that will be added to the Bank Reconciliation Statement if it was started with the balance as per the passbook?

(1 Mark)

(a) Both (i) & (ii)
(b) Both (i) & (iii)
(c) Only (iv)
(d) Only (ii)

Q4. After adjusting the following discrepancies, what will be the balance as per the Cash Book?

(2 Marks)

(a) Rs.5108
(b) Rs.47276
(c) Rs.100108
(d) Rs.142276

Q5. Mr. Govind purchased goods worth Rs.100000 during the year and sold 50% of them. The market value of the remaining goods was Rs.60000. At the end of the year, the Closing stock of goods was valued at Rs.50000. Which of the following accounting concepts was followed here?

(1/2 Mark)

(a) Cost Concept
(b) Money Measurement
(c) Conservatism
(d) Materiality

Q6. A building is purchased by the company for cash, what shall be the effect of this transaction on the Company's assets and liabilities?

(0.5 Mark)

(a) Increases the total assets.
(b) Decreases the total assets.
(c) Retains the total assets and remains unchanged.
(d) It will be transferred to liabilities.

Q7. Which of the following is a Deferred Revenue Expenditure?

(1/2 Mark)

(a) Legal expenses incurred on the purchase of a building.
(b) Installation expenses of machinery.
(c) Wages paid for the improvement of a building
(d) Expenses incurred for advertising a newly launched product.

Q8. Treating a Capital Expenditure as a Revenue Expenditure will result in an error of _____??

(0.5 Mark)

(a) Error of principle.
(b) Compensation Error.
(c) Error of complete omission
(d) Error of Commission.

Directions (9-13): Read the information carefully and answer the questions based on the given information below:

Vishal sold goods to Varun for Rs.25000 on 23/10/2021. 10000 was immediately paid. 3 months bill was drawn and accepted for the remaining amount. Vishal got the bill discounted with his bank for Rs.13000 on 10/12/2021.

Q9. A bill of exchange is drawn by a ____.

(1/2 Mark)

(a) Debtor
(b) Creditor
(c) Banker
(d) Buyer

Q10. In the books of Vishal, which account will be credited while recording the journal for the drawing of the bill?

(1/2 Mark)

(a) Bills receivable a/c
(b) Bills payable a/c
(c) Cash a/c
(d) Varun's a/c

Q11. What will the entry be made on the book of Varun for acceptance of the bill by him?

(1 Mark)

(a) Bills payable a/c dr.
To Vishal's a/c
(b) Vishal's a/c dr.
To Bills receivable a/c
(c) Vishal's a/c dr.
To Bank a/c
To Bills receivable a/c
(d) Vishal's a/c dr.
To Bills payable a/c

Q12. What will be the date of maturity of the bill drawn above by Vishal?

(1/2 Mark)

(a) 23/01/2022
(b) 25/01/2022
(c) 26/01/2022
(d) 27/01/2022

Q13. What will be the journal entry for discounting the bill with the bank in the books Vishal?

(1 Mark)

(a) Bank a/c dr.
Discount a/c dr.
To Bills receivable a/c
(b) Bills receivable a/c dr.
To Discount a/c
(c) Discount a/c dr.
To Varun's a/c
(d) Bills receivable a/c dr.
To Bank a/c

Q14. Accounts that are related to assets of the firm are ___

(0.5 Mark)

(a) Nominal accounts
(b) Real accounts
(c) Natural accounts
(d) Personal accounts

Q15. Goods sold to Fayaz for Rs. 50,000 is wrongly entered in the purchase book. The error will result in ___ (1/2 Mark)

(a) Increase in gross profit
(b) Increase in asset
(c) Decrease in gross profit
(d) Decrease in asset

Q16. Which of the following is an example of error of commission?

(0.5 Mark)

(a) Treating a capital expenditure as revenue expenditure.
(b) Writing the wrong amount in the subsidiary book.
(c) Failing to record depreciation on an asset.
(d) Incorrectly classifying an expense as a capital asset.

Q17. ____ is one of the functions performed by the back office in banking companies.

(0.5 Mark)

(a) interoffice reconciliation
(b) risk management
(c) customer-facing activities
(d) underwriting

Q18. Non- reconciliation of inter-office entries results in a ____

(0.5 Mark)

(a) Risk management factor
(b) corruption factor
(c) contingent factor
(d) fraud risk factor

Q19. As per the RBI guidelines, the cancellation of inter-branch entries has to be done within ____ period.

(0.5 Mark)

(a) 6 months
(b) 5 months
(c) 4 months
(d) 3 months

Q20. If there are any fraudulent activities in banking companies, to whom should be reported by the Auditor?

(0.5 Mark)

(a) Comptroller and Auditor General of India
(b) Reserve Bank of India
(c) Government
(d) Audit Committee

Q21. Drawing power registers in banking companies should be updated ____ to record the value of securities hypothecated.

(0.5 Mark)

(a) every day
(b) every year
(c) every month
(d) every week

Q22. Which of the following is Front end Application?

(0.5 Mark)

(a) Credit Card System
(b) Back office
(c) ATM Switch
(d) Branch Banking

Q23. ____ is part of the Authorized Capital that has not yet been called up by the company.

(0.5 Mark)

(a) capital reserve
(b) revaluation reserve
(c) reserve capital
(d) statutory reserve

Q24. Ravi starts a business with Rs.80000 and then purchases goods from Vinoth on credit for Rs.21000. As per the Accounting Equation which of the following is correct?

(1/2 Mark)

(a) 101000 = 21000 + 80000
(b) 100000 = 19000 + 81000
(c) 59000 = 80000 - 21000
(d) 80000 = 21000 + 59000

Q25. Which of the following Demerit is common in both the straight-line Method and the Diminishing Balance Method?

(1/2 Mark)

(a) Difficulty in Computation
(b) Omission of Interest Factor
(c) Unequal charge against income
(d) Undue pressure in later years

Q26. A Machine costing Rs.500000 is Depreciated on the Straight-Line Method, assuming 10 years working life and Nil scrap value, for 3 years. The estimate of remaining useful life after the 3rd was reassessed at 5 years. Calculate the depreciation for the fourth year.

(2 Marks)

(a) Rs.65000
(b) Rs.70000
(c) Rs.50000
(d) Rs.71000

Q27. Bank deposit with a short maturity period is an example of ____

(0.5 Mark)

(a) operating cash outflow
(b) investing cash outflow
(c) financial cash outflow
(d) cash and cash equivalents

Q28. ____ highlights the significant causes of change in the working capital position of an organization.

(1/2 Mark)

(a) cash flow analysis
(b) fund flow analysis
(c) balance sheet
(d) profit and loss account

Q29. Bee Ltd. had the following items under the head reserves and surplus in the balance sheet as of 31st March 2023.
Security premium account - 80 lakhs
Capital Reserve - 60 lakhs
General reserve - 90 lakhs
The company had an accumulated loss of Rs.250 lakhs on the same date. How will you show the accumulated loss as per Schedule III of the Companies Act, 2013?

(1 Mark)

(a) 250 lakhs on the asset side
(b) 20 lakhs on the asset side
(c) 20 lakhs as a negative balance of reserves & surplus
(d) 250 lakhs as negative balance under reserves & surplus

Directions (30-33): With the help of the balance sheet equation Assets = equity + liability. Choose the suitable answers for the questions that follow the transactions given below.
1) Commence business with cash ₹2 lakhs and property worth ₹ 5 lakhs.
2) Purchased merchandising inventory for cash ₹80000.
3) Cash sales worth ₹25000.
4) Investment made for ₹100000 in securities.
5) Purchase of an old motor vehicle for ₹250000.
6) Paid payroll expenses of ₹50000.
7) Interest income of ₹15000 received in advance in the form of cash.
8) A payment made to the purchase of inventory worth ₹25000.
9) Goods sold in credit to the customer for ₹30000.
10) Cash of ₹17000 is received from the customer

Q30. Draft the impact of 5th transaction in the balance sheet equation

(1 Mark)

(a) additions in motor vehicle and subtracting cash under Asset
(b) No change in equity and liability
(c) addition in motor vehicle and addition in equity
(d) both a & b

Q31. After the 4th transaction, what will be the amount balance on both the asset side and the equity and liability side?

(2 Marks)

(a) Cash - Rs.45000; Inventory - Rs.55000; Property - Rs.500000; Investment - Rs.100000; Equity - Rs.700000
(b) Cash - Rs.15000; Inventory - Rs.55000; Property - Rs.500000; Investment - Rs.100000; Equity - Rs.700000
(c) Cash - Rs.55000; Inventory - Rs.45000; Property - Rs.500000; Investment - Rs.100000; Equity - Rs.700000
(d) Cash - Rs.45000; Inventory - Rs.55000; Property - Rs.50000; Investment - Rs.100000; Equity - Rs.700000

Q32. How will the transaction, "Interest income of Rs.15000 received in advance" affect the balance sheet equation?

(1 Mark)

(a) Impact on investment and liability
(b) Impact on cash and liability
(c) Impact on cash and equity
(d) Impact on Investment and Equity

Q33. Will goods sold on credit to the customer for Rs.30000 affect the balance sheet equation? If yes, what will be the balances?

(2 Marks)

(a) Debtors(asset) - Rs.30000 & Inventory (assets) - Rs.45000
(b) Creditors(liability) - Rs.30000 & Inventory (assets) - Rs.55000
(c) Debtors (asset) - Rs.30000 & Inventory (assets) - Rs.25000
(d) Creditors(liability) - Rs.25000 & Inventory (assets) - Rs.30000

Q34. A Teacher asked her students to state any possible reasons that could result in a decline in the Gross Profit Ratio compared to the previous year. Three students came forward and their Statements were;
Statement of 1st Student: Maybe misappropriation, theft, or pilferage of Inventory during the year.
Statement of 2nd Student: Selling prices may have fallen but the prices of materials and other direct charges may not have fallen relatively.
Statement of 3rd Student: There may be an increase in prices of unsold goods, thereby increasing the value of closing inventory.
Which of the above statements is/are correct?

(2 Marks)

(a) Statements 1 & 2
(b) Statements 1 & 3
(c) Statement 3
(d) Statement 1

Q35. Calculate Gross profit ratio from the details given: Sales = Rs. 10,00,000, Opening stock = Rs.300,000, Purchases = Rs. 500,000, COGS = Rs.700,000

(1 Mark)

(a) 30%
(b) 20%
(c) 10%
(d) 40%

Q36. Students were asked which among the following was an Annuity.
Case 1 -Amount paid in Apr - 1000
Amount paid in May - 1000
Amount paid in June - 500
Case 2 -Amount paid in Apr - 500
Amount paid in May - 500
Amount paid in June - 1000
Case 3- Amount paid in Apr - 1000
Amount paid in May - 1000
Amount paid in June - 1000
Case 4- Amount paid in Apr - 1000
Amount paid in May - Nil
Amount paid in June - 1000
Student 1 - case 1
Student 2 - case 2
Student 3 - case 4
Student 4 - case 3
Which student answered correctly? (2 Marks)
(a) Student 1
(b) Student 2
(c) Student 3
(d) Student 4

Q37. Mr Mohit expects an annuity of Rs 5000 semi-annually @ a rate of 9% compounding for 10 years. How much he must invest now so that after 18 years, he gets Rs 5000 semi-annually continuously for 10 years? (2 Marks)
(a) 69039.68
(b) 13334.97
(c) 14843.45
(d) 67034.58

Q38. As per the Rule of 72 if the FD interest rate is 12% and is compounded annually, in how much time is the money doubled? (1 Mark)
(a) 10 years
(b) 7 years
(c) 12 years
(d) 6 years

Q39. Which of the following statements is correct regarding theorems for bond value?
(i) When the specified Rate of Return is equal to the coupon rate then the value of the Bond is equal to its face value.
(ii) When the specified rate of return (Kd) is greater than the coupon rate, the value of the bond is less than its face value.
(iii) When the specified rate of return is less than the coupon rate, the value of the bond is greater than its face value.

(1 Mark)

(a) Only (i)
(b) Only (ii) & (iii)
(c) Only (i) & (iii)
(d) All the statements are correct

Q40. A 10%, 6-year, bond, with a face value of Rs. 1000 has been purchased by Mr Mohit for Rs. 900. What is his yield till maturity? (1 Mark)
(a) 12.50%
(b) 11.80%
(c) 12.28%
(d) 11.60%

Q41. When the buyer sells back the bond to the issuer at a pre-specified price before maturity it's called? (0.5 Mark)
(a) Call Price
(b) Put Price
(c) Spot Price
(d) Fixed Price

Q42. The Exchange rate for settlement on a date beyond the spot is generally different and the same is known as ___ (0.5 Mark)
(a) Spot rate
(b) Forward rate
(c) Arbitrage
(d) Value date

Q43. Which of the following is a characteristic of arbitrage? (0.5 Mark)
(a) It takes place as borrowing in one center and lending in another at a higher rate.
(b) It may be earning risk-free profits by undertaking offsetting transactions
(c) It can also occur in the exchange rate.
(d) All of the above

Q44. An exporter has an export bill of Yen 25000. The inter-bank foreign currency rates for spot delivery are 1 USD = Rs.55.32. In Japan, the yen rate is = USD 2.832. How much amount in the Indian Rupees will be paid to the exporter? (1 Mark)
(a) Rs.362025.80
(b) Rs.340261.30
(c) Rs.3,916,656
(d) Rs.38,6578.70

Q45. Which of the following is not a Traditional Method of Capital Budgeting? (0.5 Mark)
(a) Pay Back Period
(b) Post Pay Back Period Method
(c) Average Rate of Return Method
(d) Internal Rate of Return Method

Q46. In discounted Pay Back period calculation, the present value of each cash inflow is calculated by taking the start of the first period as (0.5 Mark)
(a) Zero
(b) Discounted value
(c) Present Value of the Previous year
(d) Cumulative value of Previous Year

Q47. When the ARR is ___ than the minimum rate established by the management, the company shall accept the project (0.5 Mark)
(a) Higher
(b) Lower
(c) Equal to
(d) Lower than or equal to

Q48. If the spot exchange rate = 3.123, forward points = 1.1355., and forward period = 60 days, calculate the interest differential by taking a year = 360 days. (1 Mark)
(a) 3.8%
(b) 2.18%
(c) 5.98%
(d) 6%

Q49. Which among the following are features of a lease contract?
1. It is a legal, binding contract containing the terms on which one party agrees to allow the use of its property by another party.
2. It guarantees the lessee use of the property and guarantees the lessor regular payments for a specified period, in exchange for allowing the use of its property
3. A lease can be a residential lease, which is normally the same for all tenants, or a commercial lease, which is often of various types.
4. Breaking a lease contract involves legal consequences.

(2 Marks)
(a) 1 and 2
(b) 3 and 4
(c) 1,2 and 3
(d) 1,2,3 and 4

Q50. Liquidation of an interest-bearing loan through periodic payments by splitting EMI into principal and Interest is called

(0.5 Mark)

(a) Amortization
(b) Sinking Fund
(c) Balloon Repayment
(d) Redemption

Q51. If a company's input unit are 80 units that are processed at a total cost of Rs140, the normal loss is 10%, and scrap units are sold @ 0.15 each. If the output is 60 units, then the value of the abnormal loss is:

(0.5 Mark)

(a) Rs 1.93
(b) Rs 23.16
(c) Rs 27.50
(d) Rs 17.75

Q52. Costs that are charged as expenses against the revenue of the period in which they are incurred are known as ___

(0.5 Mark)

(a) Product cost
(b) Inventoriable cost
(c) Marginal cost
(d) Period cost

Q53. If Variable Cost = Rs 70,000, Fixed Cost = 40,000, and Selling Price = 100,000, what shall be the profit/ loss?

(1 Mark)

(a) Profit 10000
(b) Loss 10000
(c) No profit no loss
(d) Profit of 30000

Q54. Which of the following is not a limitation of standard costing?

(0.5 Mark)

(a) It serves as a basis for inventory valuation
(b) It aids in cost calculation for varying levels of outputs.
(c) It aids in price fixation of new product
(d) It acts as an incentive to achieve targets set by the company

Q55. Standard cost comprises budgeted values of ___
I. Direct Material Cost
II Direct Employee (Labor) Cost and
III. Overheads

(0.5 Mark)

(a) I, II
(b) II, III
(c) I, III
(d) I, II, III

Q56. Under the Income-tax Act, of 1961, for computation of total income, all income of a a taxpayer is classified into five different heads of income. Which of the following is not a head?

(1/2 Mark)

(a) Income from salary
(b) Income from house property
(c) Income from Agriculture
(d) Income from business or profession

Q57. Which of the following are features of Direct tax
I. The burden of direct tax cannot be shifted to another person.
II. It is levied and collected from the same person.
III. Income tax and Tax on undisclosed Foreign Assets are examples of Direct tax.

(0.5 Mark)

(a) I, II
(b) II, III
(c) I, III
(d) I, II, and III

Q58. Section 87A provides a rebate from the tax payable by an assessee, being an individual resident in India, whose total income does not exceed ___

(0.5 Mark)

(a) 500,000
(b) 300,000
(c) 250,000
(d) 550,000

Q59. A Businessman starts his business on 1st July 2022. What shall be the previous year for the assessment year 2023-24?

(0.5 Mark)

(a) The previous year will be from 1.7.2022 to 31.3.2023.
(b) The previous year will be from 1.4.2022 to 31.3.2023.
(c) The previous year will be from 1.7.2023 to 31.3.2024.
(d) The previous year will be from 1.4.2023 to 31.3.2024.

Q60. Under which of the following cases Income from the previous year will be assessed in the previous year itself?
I. Shipping business of the non-resident
II. Artificial Judicial person formed for a particular purpose.
III. Discontinued Business

(1 Mark)

(a) I, II
(b) II, III
(c) I, III
(d) I, II, III

Q61. _____ refers to the process of accounting for a cost which begins with the recording of income and expenditure and ends with the preparation of periodical reports for ascertaining costs. (1/2 Mark)

(a) Costing

(b) Management Accounting

(c) Cost Accounting

(d) Cost Accountancy

Q62. ____ refers to factors influencing the level of cost in production activity. (1/2 Mark)

(a) Cost control

(b) Variable

(c) Cost driver

(d) Credit control

Q63. For the production of non-standard and non-repetitive products which kind of costing is to be adopted by the manufacturer? (0.5 Mark)

(a) Job costing

(b) Batch costing

(c) Process costing

(d) Unit costing

Q64. Batch production comprises two major costs namely ______ (1/2 Mark)

(a) Rent and Machinery cost

(b) Machine set-up cost and inventory holding cost

(c) Labor and machinery cost

(d) Labor and Rent cost

Q65. Under which method of valuation of work in progress, the cost to complete the opening WIP and other completed units are calculated differently?

(1 Mark)

(a) FIFO

(b) ABC analysis

(c) Weighted Average Cost Method

(d) Simple Average Method

Q66. When should a change in accounting policy be carried out? (1 Mark)

(a) Whenever management deems it necessary for operational enhancement or strategic optimization.

(b) Only if it is in alignment with the preferences and requirements of stakeholders, ensuring their interests are considered.

(c) When it is mandated by legal obligations, compliance with specific accounting standards, or to elevate the clarity and transparency of financial statement presentation.

(d) Anytime there is a potential impact on the entity's financial performance, warranting careful consideration and evaluation.

Q67. Which of the following statements accurately describes the respective roles of the journal and ledger in the double-entry accounting system for James, a junior accountant seeking to understand their primary purposes?

(1 Mark)

(a) The journal serves to chronologically record transactions, while the ledger provides a consolidated and dependable summary of all transactions.

(b) The journal is the principal accounting record for detailed and analytical transaction recording, while the ledger represents the initial entry point for transactions.

(c) The journal is valued for its chronological recording, yet it is the ledger that stands out as the primary record for transactional information.

(d) The ledger is the primary tool for recording transactions, whereas the journal offers a comprehensive analytical overview of financial activities.

Directions (68-71) Trial Balance as of December 31, 20X5:

Account	**Debit (Rs.)**	**Credit (Rs.)**
Cash	300,000	
Accounts Receivable	300,000	
Inventory	500,000	
Prepaid Expenses	25,000	
Land	750,000	
Buildings	1,800,000	
Accumulated Depreciation		150,000
Accounts Payable		160,000
Long-Term Debt		700,000
Common Stock		1,500,000
Retained Earnings		90,000
Sales Revenue		2,200,000
Cost of Goods Sold	1,100,000	
Operating Expenses	200,000	
Income Tax Expense	40,000	
Dividends		150,000

Q68. What is the total value of assets as of December 31, 20X5?

(1 Mark)

(a) Rs.3,875,000

(b) Rs.3,275,000

(c) Rs.3,675,000

(d) Rs.3,550,000

Q69. Calculate the book value of buildings as of December 31, 20X5.

(1 Mark)

(a) Rs.1,650,000

(b) Rs.1,200,000

(c) Rs.1,300,000

(d) Rs.1,000,000

Q70. Calculate the net profit for the year ended December 31, 20X5.

(1 Mark)

(a) Rs.600,000
(b) Rs.650,000
(c) Rs.550,000
(d) Rs.860,000

Q71. What is the retained earnings balance as of December 31, 20X5, after considering dividends?

(1 Mark)

(a) Rs.495,000
(b) Rs.800,000
(c) Rs. 645,000
(d) Rs.395,000

Q72. A company purchased a machine for Rs. 200,000 with an estimated total production capacity of 100,000 units. In the first year, it produced 10,000 units. Using the units of production method, calculate the depreciation expense for the first year.

(2 Marks)

(a) Rs. 2,500
(b) Rs. 16,000
(c) Rs. 20,000
(d) Rs. 10,000

Q73. Which of the following statements provides an accurate differentiation between a bill of exchange and a promissory note?

(2 Marks)

(a) A bill of exchange is a written agreement that constitutes an unequivocal commitment made by one party to pay a specified sum of money to another party on a predetermined date, while a promissory note is a distinct written instrument that serves as an unambiguous promise by one party to pay a specified sum of money to another party on a designated date, without any conditions attached.
(b) A bill of exchange is typically initiated and issued by a debtor, serving as a formal instrument to facilitate payment to a creditor, whereas a promissory note is customarily created by a creditor, establishing a clear and binding obligation on the part of a debtor to make a specific payment.
(c) Both a bill of exchange and a promissory note necessitates the process of acceptance by the debtor, indicating their acknowledgment and commitment to honor the financial obligation stipulated in the respective instrument.
(d) A bill of exchange involves two primary parties, namely the drawer (issuer) and the drawee (recipient), with the possibility of additional parties such as endorsers. On the other hand, a promissory note typically encompasses three key roles: the maker (who commits to payment), the payee (to whom the payment is promised), and potentially, endorsers or guarantors who may assume liability for the note.

Q74. Fill in the Blanks:

(1 Mark)

1. All new KCC must be issued as smart cards cum ....
2. Back offices carry out various functions to support the ....

(a) debit card, front office operations
(b) Credit card, transactions
(c) banking, management activities
(d) debit card, banking processes

Q75. Which of the following expenses is not considered a part of capital expenditure?

(1 Mark)

A. Costs associated with routine maintenance and servicing of assets, including intangible ones.
B. Costs linked to actions like opening a new facility, introducing a new product or service, operating in a new location or with a different customer group, as well as general administrative expenses.
C. Costs incurred in relocating or reorganizing a portion or the entirety of a company's operations.
D. Costs related to internally generated assets such as Goodwill, Brands, Mastheads, Publishing titles, Customer lists, and similar items.

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

Q76. Is there a need for an adjusting entry before the accounting period ends in the case where JKL & Sons Ltd. borrowed money from SBI Bank on March 1, 2023, with the initial interest payment due on June 1, 2023?

(1 Mark)

(a) Yes, an adjusting entry is necessary to rectify any inconsistency in the company's records arising from the delayed payment. This ensures that the financial statements accurately reflect the timing of the interest expense.
(b) Yes, an adjusting entry is required to synchronize the recognition of interest expense with the actual payment date. This helps in providing a more accurate representation of the company's financial position.
(c) No, there is no need for an adjusting entry to evenly distribute interest expense throughout the year. The adjustment should reflect the actual timing of the interest payment.
(d) No, an adjusting entry is not made for the purpose of simplifying the financial statement preparation process. It is made to ensure accuracy and compliance with accounting principles.

Q77. Match the following:

(2 Marks)

1. Chartered Company 2. Statutory company 3. Registered company 4. Foreign Company	A. A company with a presence or establishment in India. B. A company formed under a unique charter granted by a monarch or a head of state, conferring it with specific privileges. C. Legal entities formed by individuals or entities to conduct business activities, with limited liability and distinct legal status separate from their owners. D. A company established through a specific law enacted by either the Central or State Legislature.

(a) 1-B, 2-D, 3-C, 4-A
(b) 1-B, 2-D, 3-C, 4-A
(c) 1-B, 2-D, 3-C, 4-A
(d) 1-B, 2-D, 3-C, 4-A

Q78. When is it necessary for a company to include comparative figures (corresponding amounts) in its financial statements?

(1 Mark)

(a) Comparative figures (corresponding amounts) in financial statements are required only for the initial financial statements following the company's establishment. This helps stakeholders understand the company's performance in its early stages.
(b) It is necessary to provide comparative figures in all subsequent financial statements, excluding the initial one. This practice allows for meaningful comparisons of financial performance over time.
(c) Comparative figures are mandated for financial statements beyond the company's first two years of incorporation. This helps in assessing the company's progress and performance trends over a longer period.
(d) The inclusion of comparative figures is contingent on specific requests from shareholders. If shareholders explicitly request this information, the company should provide it in the financial statements.

Q79. Why is it crucial to take into account alterations in other current assets and current liabilities when preparing a cash flow statement, particularly concerning regular business operations?

(1 Mark)

(a) Changes in other current assets and current liabilities have no impact on day-to-day operating activities. They are considered irrelevant to the operational cash flow.
(b) Changes in these items are only pertinent to investing activities. They primarily influence cash flows related to investments and divestments.
(c) Alterations in these items directly influence cash flows arising from day-to-day business operations. They play a significant role in determining the cash generated or used in the core activities of the company.
(d) Adjustments in these items exclusively affect cash flows originating from financing activities. They mainly impact transactions related to the company's capital structure, such as debt issuance or repayment.

Q80. Which of the options highlights a notable distinction in accounting procedures as per Rule 15 of the Banking Regulating (Companies) Rules, 1949, setting banks apart from other sizable institutions?

(1 Mark)

(a) Banks differentiate their accounting practice by prioritizing the regular updating of their general ledger, giving it precedence over the maintenance of books of prime entry such as cash books or journals. This emphasizes the centrality of the general ledger in bank accounting.
(b) Banks stand out from other large-sized institutions as they are not obliged to publicly announce their accounts and auditors' reports in a newspaper. This sets them apart in terms of reporting and disclosure requirements.
(c) Banks follow a distinctive accounting approach by not adhering to the mercantile system, which is commonly employed by other large-sized institutions. This signifies a significant departure in accounting methodology.
(d) Another distinguishing feature in bank accounting practices is the allowance of up to one year for the publication of their accounts and auditors' reports in a newspaper located where their principal office is situated. This timeframe offers banks specific flexibility in their reporting obligations.

Q81. Match the following terms with their definitions:

(1 Mark)

1. Data 2. Record 3. Data File or File 4. System	A. Information, observations, presumptions, or events utilized in accounting transactions. B. A collection of data elements linked to a subject of data handling. C. An organized collection of interconnected data entries maintained in a specific sequence. D. Diverse elements responsible for handling data and delivering outcomes, encompassing individuals, accounting records, and technological resources/software in accounting frameworks.

(a) 1-B, 2-C, 3-A, 4-D
(b) 1-A, 2-B, 3-C, 4-D
(c) 1-D, 2-B, 3-A, 4-C
(d) 1-A, 2-C, 3-B, 4-D

Q82. Which of the following statements regarding business ethics is correct?

(2 Marks)

I. Business ethics are concerned with distinguishing right from wrong.
II. Business ethics primarily focuses on the interests of shareholders and stakeholders.
III. Every company typically has a well-documented code of conduct related to business ethics.
IV. Social responsibility and business ethics are synonymous terms.
V. A company's reputation, shaped by its business ethics, has a significant impact on its success.
(a) I, II, III, and V
(b) I, II, and III
(c) II, III, and V
(d) I, IV, and V

Q83. Calculate Debt- Equity Ratio from the following particulars:

(2 Marks)

Equity Share Capital	3,00,000
Preference Share Capital	1,60,000
General Reserve	80,000
Profit and Loss Balance	90,000
Current Liabilities	80,000
Non-Current Assets	3,00,000
Current Assets	2,50,000
12% Mortgage Loan	1,20,000

(a) 0.19:1
(b) 0.25:1
(c) 0.36:1
(d) 0.50:1

Q84. Current Ratio 2: 1, Quick Ratio 1.6: 1, Current Liabilities 3,00,000. Calculate Current Assets, Quick Assets, and Inventory.

(2 Marks)

(a) 3,20,000; 2,40,000; 80,000
(b) 2,80,000; 2,10,000; 70,000
(c)3,00,000; 2,25,000; 75,000
(d) 6,00,000; 4,80,000; 1,20,000

Q85. Which statement best describes the concept of a Floating Rate?

(2 Marks)

1. Floating Rate guarantees a steady interest rate for the entire loan term, irrespective of market fluctuations.
2. Floating Rate generally indicates that the interest rate is linked to a benchmark rate and may vary based on market circumstances.
3. Floating Rate signifies an interest rate typically lower than the Fixed Rate and remains consistent over time.
4. Floating Rate is established by the duration of the loan, rather than being influenced by market conditions or any benchmark rate.

(a) Only 4
(b) Only 3
(c) Only 2
(d) Only 1

Q86. Which statement accurately describes the relationship between the required rate of return (market interest rate) and the value of a bond?

(1 Mark)

I. When the required rate of return (market interest rate) equals the coupon rate, the bond is valued at its par value.
II. If the required rate of return (kd) exceeds the coupon rate, the bond's value is lower than its par value.
(a) Statement I only
(b) Statement II only
(c) Both Statement I and Statement II
(d) Neither Statement I nor Statement II

Q87. Which of the following statements regarding the relationship between spot rates and forward rates is correct?

(1 Mark)

I. When the spot rate is equal to the forward rate, it is referred to as being "at par."
II. For direct rates, if the forward rate exceeds the spot rate, the base currency is considered to be at a premium.
III. For direct rates, if the forward rate is lower than the spot rate, the base currency is considered to be at a discount.
(a) Statement I only
(b) Statement II only
(c) Statements II and III only
(d) Statements I, II, and III

Q88. FRT Ltd has a capital structure comprising 30% debt and 70% equity. The cost of debt is 15% and the cost of equity is 18%. Calculate WACC.

(1 Mark)

(a) 12%
(b) 16%
(c) 14.4%
(d) 17.1%

Q89. Which of the following statements accurately reflects the Net Operating Income Approach?

(2 Marks)

I. The primary determinant of a firm's value (or WACC) is its operating profit (EBIT).
II. The total interest cost on debt directly impacts the operating profit (EBIT).
III. While the cost of debt remains stable, higher levels of debt in the capital structure lead to increased total interest expenses.
IV. As the proportion of debt in the capital structure rises, the cost of equity diminishes.
(a) I and II
(b) II and III
(c) III and IV
(d) I and III

Q90. Consider the following statements about the payback method:

(2 Marks)

Statement 1: The payback method assesses the duration required for the returns from an investment to cover the initial investment cost.
Statement 2: In scenarios involving mutually exclusive investments, the payback method can aid in prioritizing projects by opting for those with the briefest payback period.
Statement 3: Unlike other investment appraisal techniques, the payback method accounts for the time value of money.
(a) Statement 1 and Statement 2 are correct, but Statement 3 is incorrect.
(b) Statement 1 and Statement 3 are correct, but Statement 2 is incorrect.
(c) Statement 2 and Statement 3 are correct, but Statement 1 is incorrect.
(d) Statement 1, Statement 2, and Statement 3 are all correct.

Q91. Which statement accurately describes a leveraged lease?

(2 Marks)

1. In a leveraged lease, the lessor secures a loan to acquire an asset, which is then leased to the lessee.
2. The lessor does not retain ownership of the asset.
3. This type of lease involves three participants: the lessor, the lessee, and the lender.
4. The entirety of each lease payment made by the lessee is forwarded to the lender for debt repayment.
5. Both the leased asset and the lease payments made by the lessee serve as collateral for the lender.
(a) 1,3 and 5
(b) 2, 4 and 5
(c) All of the above
(d) None of the above

Q92. The total requirement of current assets of Elite Ltd. is estimated at 200 lac. The firm has arranged short-term finance of 95 lac from various sources. What is the amount of margin or NWC required to be brought in and the Current Ratio of the firm?

(1 Mark)

(a) 160 lacs, 1.66:1
(b) 270 lacs, 1.33:1
(c) 105 lacs, 2.1:1
(d) 30 lacs, 1.27:1

Q93. How do derivatives differ from standard contracts in terms of the amount of initial capital required?

(1 Mark)

(a) Derivatives require a significant upfront capital investment.
(b) Derivatives involve minimal or insignificant initial financial expenditures.
(c) Derivatives consistently involve a greater initial capital commitment compared to conventional contracts.
(d) Derivatives specify an immutable initial capital amount.

Q94. How does the ability-to-pay principle influence income tax policy, and what specific method does it support to facilitate wealth redistribution within a nation's economy?

(1 Mark)

(a) It requires a tax rate that becomes proportionally lower as earnings increase, aiming to incentivize higher earners to contribute more to wealth redistribution.
(b) It calls for a uniform tax rate applied to all income brackets, ensuring that everyone pays an equal share of their income.
(c) It endorses a graduated tax structure in which individuals with higher incomes face progressively higher tax rates, thus promoting wealth redistribution by taxing the affluent more heavily.
(d) It fosters the adoption of legal methods to minimize tax liabilities, ultimately encouraging individuals to save more money rather than actively participating in wealth redistribution efforts.

Q95. What is the fundamental principle that underlies the concept of Input Tax Credit (ITC) within the GST system?

(1 Mark)

(a) The Input Tax Credit (ITC) mechanism provides a structured process for businesses to claim refunds on taxes paid for their inputs, thereby reducing overall tax liability.
(b) Through the Input Tax Credit (ITC) system, businesses have the ability to offset taxes paid on inputs against their output tax liabilities, promoting a fair and balanced taxation system.
(c) The Input Tax Credit (ITC) system does not require businesses to make GST payments on their output supplies, allowing for seamless operations and cash flow management.
(d) Input Tax Credit (ITC) is a tax credit available to consumers, providing them with incentives for their purchases and contributing to economic growth.

Q96. What is the principal function of a productive cost center in the realm of cost centers?

(1 Mark)

(a) Providing essential support to non-productive cost centers, ensuring smooth operations throughout the organization.
(b) Actively contributing to the manufacturing process of products, directly impacting production.
(c) Engaging in various service activities that facilitate overall operational efficiency.
(d) Specializing in the creation and development of machinery and equipment essential to the organization's processes.

Q97. Which of the following statements does not represent an advantage of using a job cost card?

(1 Mark)

1. It provides management with pertinent information for making informed decisions.
2. It serves as an efficient tool for managing costs.
3. It aids in minimizing labor downtime associated with the job.
4. Job card details can be utilized to verify the accuracy of the job's financial records.
5. It establishes a connection between the production control and costing departments.

(a) 1, 2, and 4
(b) 2, 3 and 5
(c) All of the above
(d) None of the above

Q98. What sets apart job costing from contract costing?

(2 Marks)

1. Job costing typically involves work performed at the contractor's workplace, whereas contract work is often carried out at a different site.
2. Contracts are generally characterized by their larger scale and extended duration in comparison to jobs.
3. Entering into a contract may have specific eligibility criteria, while job costing doesn't necessitate such conditions.
4. In contract costing, a majority of the costs are of a direct nature, which differs from job costing.
5. Contract costing treats each contract as a distinct cost unit, whereas job costing may encompass more than one cost unit.

(a) 1, 2 and 3
(b) 1, 4 and 5
(c) 1, 2, 4 and 5
(d) All of the above

Q99. In a factory, the standard cost for variable overheads, for producing one chair, is estimated to be 4 hours at Rs. 320 per hour. During a review, it was found that the actual production time was 4.5 hours per chair, while the expenditure per hour remained at Rs. 320. What is the variable overhead volume or efficiency variance per chair?

(1 Mark)

(a) Rs. 0
(b) Rs. 50
(c) Rs. 160
(d) Rs. 250

Q100. Fill in the blanks:

(2 Marks)

1. Continuous alterations in ___ can render basic standards outdated.
2. Ideal standards are more ___, which can have a negative impact on employees' ___.
3. Presently achievable standards are modified to account for shifts in ___.
4. The organization's ___ may lead management to adjust currently attainable standards.

(a) production methods, idealistic, motivation, subjective factors, peculiar nature
(b) price levels, realistic, moral, objective elements, unique goals
(c) labor conditions, idealistic, mood, objective factors, specific targets
(d) production scale, realistic, mood, subjective parameters, unique aims

Solutions

S1. Ans.(c)
Sol. A Bank Reconciliation Statement is typically prepared by the business accountant. This statement helps reconcile the differences between the bank's records (as per the bank statement) and the company's records (as per its cash book). It ensures that both sets of records matches and any discrepancies are identified and rectified. While an auditor may review the Bank Reconciliation Statement, the actual preparation is the responsibility of the business accountant.

S2. Ans.(b)
Sol. When the beginning of the Bank Reconciliation Statement was the favorable balance as per the passbook, then the amount recorded in the cash column for the deposit will be subtracted. In this case, Rs.50000 will be subtracted.

S3. Ans.(a)
Sol. When the Bank Reconciliation Statement was started with the balance as per pass book in the given case, only the deposit that is not credited by the bank will be added.

S4. Ans.(a)
Sol. While adjusting the following discrepancies, (ii) will be added then (i), (iii) and (iv) will be subtracted from the balance as per the bank statement. Therefore, the balance as per the cash book will be Rs.5108 favorable.
(73692+12000-25000- 10584-50000 = 5108).

S5. Ans.(a)
Sol. The accounting concept followed in this scenario is the Cost Concept. According to this concept, assets are recorded in the books of accounts at their original cost, which is the amount paid to acquire them. In this case, Mr. Govind initially recorded the goods at their purchase cost of Rs.100,000. Later, when determining the value of the remaining goods, he considered their market value to be Rs.60,000, but the closing stock was finally valued at Rs.50,000. This demonstrates the application of the Cost Concept in valuing inventory.

S6. Ans.(c)
Sol. When a building is purchased for cash, the cash in the total assets will be converted into buildings. In this case, the total value of the assets will be unchanged as the value will be retained and converted into another asset.

S7. Ans.(d)
Sol. Deferred Revenue Expenditure refers to expenses that provide benefits over an extended period and are spread out over multiple accounting periods. In this case, expenses for advertising a newly launched product fall under this category as the benefits of the advertising campaign are expected to accrue over time, not immediately upon incurring the expense.

S8. Ans.(a)
Sol. Treating a Capital Expenditure as a Revenue Expenditure is a fundamental accounting mistake, known as an "Error of principle." This type of error occurs when a transaction is recorded in a manner that contradicts established accounting principles. In this case, it involves misclassifying a long-term capital expenditure as a regular, short-term expense. This can significantly impact the accuracy of financial statements and lead to incorrect financial analysis.

S9. Ans.(b)
Sol. A bill of exchange is generally drawn by the creditor/seller upon his debtor/buyer. It has to be accepted by the drawee (the debtor) or someone on his behalf.

S10. Ans.(d)
Sol. When the bill was drawn, the entry to be made on the drawer's account was
Bills receivable a/c dr.
To Drawee's a/c
In this case, Varun's a/c will be credited while making the journal entry for the recording of the drawing of the bill by Vishal.

S11. Ans.(d)
Sol. The journal entry to be passed on the books of Varun for acceptance of the bill was,
Vishal's a/c dr.
To Bills payable a/c

S12. Ans.(b)
Sol. The bill was drawn for 3 months on 23/10/2021. The date of maturity of the bill will fall on 26/01/2022 after adding the 3 days of grace. But 26th January was a government holiday. Therefore, the date of maturity will fall on the preceding date which is 25/01/2022.

S13. Ans.(a)
Sol. While recording the journal entry for discounting of the bill with the bank, the Bank and Discount account will be debited while the Bills receivable account is credited. Therefore, the entry will be,
Bank a/c dr. 13000
Discount a/c dr. 2000
To Bills receivable a/c 15000

S14. Ans.(b)
Sol. Real accounts are related to assets, and they do not include debt. These accounts pertain to tangible assets like property, machinery, cash, etc., as well as intangible assets like goodwill. Real accounts are not closed at the end of an accounting period; their balances are carried forward to subsequent periods.

S15. Ans.(c)
Sol. This is because the sale of goods should be recorded as revenue in the income statement, which increases gross profit. However, when it is mistakenly entered in the purchase book, it will be treated as an increase in expenses (cost of goods sold), which decreases gross profit.

S16. Ans.(b)
Sol. An error of commission occurs when an incorrect amount is recorded in the subsidiary book. This means that an entry related to a transaction is made with an inaccurate figure. This type of error affects the individual ledger accounts and can lead to discrepancies in the trial balance. It is considered a "commission" error because it involves the incorrect handling or processing of a transaction.

S17. Ans.(a)
Sol. Interoffice reconciliation is one of the functions performed by the back office in banking companies. This involves the process of verifying and reconciling financial transactions and records between different departments or branches within the bank. It ensures that all internal financial data and records are accurate and in agreement. This is a crucial function for maintaining the integrity and accuracy of the bank's financial operations.

S18. Ans.(d)
Sol. Non-reconciliation of inter-office entries can result in a **fraud risk factor.** This is because it creates opportunities for discrepancies and inaccuracies in the financial records, which can be exploited for fraudulent activities. It is crucial for banks and financial institutions to regularly reconcile inter-office transactions to mitigate the risk of fraud and ensure the integrity of their financial operations.

S19. Ans.(a)
Sol. As per the RBI (Reserve Bank of India) guidelines, the cancellation of inter-branch entries has to be done within a period of **6 months.** This is to ensure timely and accurate reconciliation of financial transactions between different branches or offices of a bank. It helps maintain the integrity and accuracy of the bank's financial records.

S20. Ans.(d)
Sol. The Head of Internal (HIA) audit shall directly report to either the Audit Committee or the Whole Time Director. The Board of Directors shall decide to allow the Managerial director & CEO or a whole-time director to be the 'reporting authority' of the HIA.

S21. Ans.(c)
Sol. Drawing power registers in banking companies should be updated **every month** to record the value of securities hypothecated. This ensures that the register accurately reflects the current value of the securities being used as collateral for loans or credit facilities. Regular updates are essential for effective risk management and compliance with regulatory requirements.

S22. Ans.(d)
Sol. Branch Banking is the front-end application whereas Back office, ATM Switch, and Credit card System are Back-end Application as it does not require the intervention of Customers.

S23. Ans.(c)
Sol. Reserve capital refers to the part of the authorized capital of a company that has not yet been called up or issued for subscription. It is kept in reserve and can be called up by the company if needed in the future. This provides a buffer of unissued capital that can be utilized when required by the company.

S24. Ans.(a)
Sol. Assets = Liabilities + Capital
Rs. 80,000 (Capital) + Rs. 21,000 (Liabilities) = Rs. 101,000 (Total Assets)

S25. Ans.(b)
Sol. The omission of the Interest Factor is the common demerit in both the Straight-Line Method and the Diminishing Balance Method. Both methods do not take into consideration the loss of interest on the amount invested in the Asset. The amount would have earned interest, had it been invested outside the business.

S26. Ans.(b)
Sol. Depreciation every year = 500000/10 = Rs. 50000
Depreciation for 3 years = 50000*3 = 150000
Book value of machine after 3 years = 500000 – 150000 = 350000
Remaining useful life according to the previous estimate = 7 years
Remaining useful life according to the revised estimate = 5 years
Depreciation from 4th year onwards = 350000 / 5 = Rs.70000

S27. Ans.(d)
Sol. A bank deposit with a short maturity period is considered as part of **cash and cash equivalents** in the financial statements. Cash and cash equivalents include cash on hand, cash in bank accounts, and short-term investments that are highly liquid and have a short maturity period, typically three months or less. They are used for short-term needs and are readily convertible into known amounts of cash.

S28. Ans.(b)
Sol. Fund flow analysis highlights the significant causes of change in the working capital position of an organization. It provides insights into how funds are generated and used within an organization, which includes changes in working capital. Fund flow analysis helps in understanding the sources and uses of funds, which is essential for financial management and decision-making.

S29. Ans.(d)
Sol. As per Schedule III of the Companies Act, 2013, accumulated losses should be shown as a negative balance under the head "Reserves & Surplus."
In this case, the accumulated loss of Rs. 250 lakhs will be shown as a negative balance, reducing the overall reserves & surplus.

S30. Ans.(d)
Sol. The purchase of an old motor vehicle is an addition to the assets and it is a cash outflow, hence it should be subtracted from cash under the asset. Therefore, both adjustments are made under the head asset, there is no change in equity and liability.

S31. Ans.(a)
Sol. 1) cash + property = Equity
2 lakhs + 5 lakhs = 7 lakhs
2) cash + Inventory + Property = Equity
(80000) + 80000 + 0 = 0
3) cash + Inventory + property = Equity
25000 + (25000) + 0 = 0
4) cash + Inventory + property + Investment = Equity
(100000) + 0 + 0 + 100000 = 0
Therefore, the balances will be,
Cash - Rs.45000; Inventory - Rs.55000; Property - Rs.500000; Investment - Rs.100000; Equity - Rs.700000.

S32. Ans.(b)
Sol. Any income received in advance will be treated as a current liability to the business. Hence, interest income received in advance creates an impact on liability, and such interest income was received in cash, therefore it is an addition to the cash column of the balance sheet equation.

S33. Ans.(c)
Sol. Existing Inventory balances after the 4th transaction are Rs.55000.
Goods sold to customers in credit for Rs.30000, hence, it will be reduced from inventory, and finally, the inventory balance will be Rs.25000.
Debtors' balance will be increased to the extent of Rs. 30000 under the head assets.

S34. Ans.(a)
Sol. There can be a decline in the Gross Profit Ratio in comparison to the previous year if there is misappropriation, theft, or pilferage of inventory during the year resulting in a decline in the closing inventory and selling price falling but the other direct charges have not fallen relatively. Statement 3 is not correct since the increase in closing inventory will increase the Gross Profit Ratio. Therefore, only Statement 1 & 2 is correct.

S35. Ans.(a)
Sol. Gross profit= Sales - COGS i.e., 10,00,000- 700,000 = Rs.300,000.
Gross profit ratio = Gross profit/ Sales *100 i.e., 30%

S36. Ans.(d)
Sol. To be called an annuity a series of payments or receives must have the following features
(1) Amount paid or received must be constant over the period of the annuity
(2) The time interval between the two consecutive payments or receipts must be the same.

S37. Ans.(b)
Sol. The formula for Present value annuity = Annuity x PVIFA (Present value interest factor annuity), (i, n)
= 5000 x (PVIFA (9%/2, 10x2))
= 5000 x (PVIFA (4.5%, 20)
= 5000 x 13.007936
= 69039.68
Therefore, after 18 years, he gets Rs 69039.68 to calculate how much he must invest now
PV = FV x 1/ (1+i) ^n
PV = 69039.68 x 1/ (1+ 9%/2) ^18*2
PV = 13334.97

S38. Ans.(d)
Sol. The Rule of 72 is a useful formula that is generally used to estimate the number of years required to double the invested money compounded annually at a given rate of return.
Formula
Period for Money Double = 72/r
Therefore, FD interest rate(r) is 12%
Time Period for Money Double = 72/12 = 6 Year

S39. Ans.(d)
Sol. The theorem of bond is:
(i) When the specified Rate of Return is equal to the coupon rate then the value of the Bond is equal to its face value.
(ii) When the specified rate of return (Kd) is greater than the coupon rate, the value of the bond is less than its face value.
(iii) When the specified rate of return is less than the coupon rate, the value of the bond is greater than its face value.

S40. Ans.(c)
Sol. Yield to Maturity = [Annual Interest + {(FV-Price)/Maturity}] / [(FV +Price)/2]
Annual Interest = Annual Interest Payout by the Bond.
FV = Face Value of the Bond.
Price = Current Market Price of the Bond.
Maturity = Time to Maturity i.e. the number of years till Maturity of the Bond.
= [100+ {(1000-900/6}]/ [(1000+900/2)] x 100
= (100+16.67)/ (950 x 100)
= 12.28%

S41. Ans.(b)
Sol. When the buyer sells back the bond to the issuer at a pre-specified price before maturity, it is referred to as exercising a "put option." A put option gives the bondholder the right (but not the obligation) to sell the bond back to the issuer at a specified price, which is known as the put price.

S42. Ans.(b)
Sol. The forward rate is the exchange rate for a future date. It represents the price agreed upon today for the exchange of currencies at a specified future time. This rate is influenced by factors like interest rates, inflation, and market expectations. The forward rate allows businesses and investors to hedge against potential currency fluctuations, providing a level of certainty for future transactions involving different currencies.

S43. Ans.(d)
Sol. Arbitrage refers to the practice of exploiting price differences in different markets or exchanges to make a profit. It can take various forms, including:
(a) Borrowing in one center and lending in another at a higher rate, known as interest rate arbitrage. This involves taking advantage of differences in interest rates between two markets.
(b) Earning risk-free profits by undertaking offsetting transactions. This could involve buying and selling the same or similar assets in different markets to capitalize on price discrepancies.
(c) Occurring in the exchange rate. This is known as forex or currency arbitrage, where traders seek to profit from differences in exchange rates in different markets or at different times.

S44. Ans.(c)
Sol. Cross rate = 55.32 x 2.832 = 156.66624
Total amount 156.66624 x 25000 = Rs. 3,916, 656

S45. Ans.(d)
Sol. Traditional Methods of Capital Budgeting include the pay-back period, Discounted or post-pay-back period, and the Average rate of return method, and modern methods include Net present value, Internal rate of return, and Profitability Index.

S46. Ans.(a)
Sol. The discounted payback period is a capital budgeting Technique used to determine the profitability of a project. A discounted payback period gives the number of years it takes to break even from undertaking the initial expenditure, by discounting future cash flows and recognizing the time value of money. In discounted Payback period calculation, the present value of each cash inflow is calculated by taking the start of the first period as Zero.

S47. Ans.(a)
Sol. When the Average Rate of Return (ARR) is **higher** than the minimum rate established by the management, the company shall accept the project. This means that if the average annual return on the investment is greater than the minimum acceptable rate set by the company, the project is considered financially viable and should be accepted.
ARR is used as a measure to assess the profitability of an investment. If the ARR exceeds the company's predetermined minimum rate of return, it suggests that the project is expected to generate returns above the company's required threshold, making it an attractive investment opportunity.

S48. Ans.(b)
Sol. Interest Differential = (Forward Points / Spot Rate) x (360 / Forward Period)
Interest Differential = (1.1355 / 3.123) x (360 / 60)
Interest Differential = (0.3633) x (6)
Interest Differential = 2.1798
So, the interest differential is approximately 2.18%.

S49. Ans.(d)
Sol. Features of a lease contract encompass several aspects:
- It is a legally binding agreement stipulating the terms under which one party permits another to utilize its property.
- The contract guarantees the lessee's access to the property and commits the lessor to receive regular payments for a specified duration in exchange for the usage of the property.
- Lease contracts can assume various forms, including residential leases, uniform for all tenants, or commercial leases with diverse options.
- Violating a lease contract can entail legal ramifications, emphasizing the binding nature of such agreements.

S50. Ans.(a)
Sol. Liquidation of an interest-bearing loan through periodic payments by the split of Equated Monthly Installments (EMI) into principal and interest is called **Amortization**.
This is the process of paying off a debt, like a loan or a mortgage, over time through regular, scheduled payments. These payments are typically composed of both principal (the original amount of the loan) and interest.

S51. Ans.(b)
Sol. Abnormal loss = (Total Cost- Realizable value of normal loss)/ (Total input units - Normal loss units) * Abnormal loss units
= ((140 - 8* 0.15)/80 - 8) * 12
= (138.8/ 72) *12
=1.93*12
= Rs 23.16

S52. Ans.(d)
Sol. Costs that are charged as expenses against the revenue of the period in which they are incurred are known as **Period costs**. These are costs that are not tied to the production of goods or services and are expensed on the income statement in the period in which they are incurred. They are not considered part of the cost of goods sold.

S53. Ans.(b)
Sol. Contribution = Selling Price – Variable Cost
= 100,000 – 70,000 = Rs 30,000
Since Fixed cost is more than contribution there is a loss.
Loss = Fixed Cost - contribution
= 40000-30000= 10000
The amount of 10,000 represents the extent of loss since the fixed costs are more than the contribution.

S54. Ans.(b)
Sol. It aids in cost calculation for varying levels of outputs: This is not a limitation, but rather one of the benefits of standard costing. Standard costing provides a set cost that can be used to estimate the cost of producing different levels of output.

S55. Ans.(d)
Sol. Standard cost refers to the cost that is estimated on the basis of technical specification, historical data, current production plan, and expected conditions of the future. It is set for material, labor, variable overheads, and fixed overheads. Standards are also set for the sales quantity and sales value; this is generally known as budgeted sales.
Standards are set in both quantity (units or hours) and cost (price or rate). It is thus measured in quantities, hours, and value of the factors of production.
Standard costs are divided into three main cost components, such as
(a) Direct Material Cost
(b) Direct Employee (Labor) Cost and
(c) Overheads.

S56. Ans.(c)
Sol. Under the Income-tax Act of 1961, for computation of total income, all income of a taxpayer is classified into five different heads:
1. Income from Salary
2. Income from House Property
3. Profits and Gains of Business or Profession
4. Capital Gains
5. Income from Other Sources
Income from Agriculture is not one of the specified heads of income in the Income-tax Act, 1961. Instead, income from agriculture is subject to special provisions and exemptions, and it is not categorized under the traditional heads of income for tax computation.

S57. Ans.(d)
Sol. Direct taxes are characterized by three key features. Firstly, their burden cannot be shifted to another person; the entity or individual directly liable for the tax must pay it. Secondly, direct taxes are levied and collected from the same person or entity, without any intermediaries. Finally, examples of direct taxes include income tax, which is imposed directly on an individual's earnings, and the tax on undisclosed foreign assets, which is levied directly on the owner of such assets.

S58. Ans.(a)
Sol. Section 87A of the Income-tax Act offers a rebate from the tax owed by an assessee who is an individual resident of India whose total income falls within the 5% tax slab to provide tax relief to those individuals whose income is below Rs 5,00,000. The rebate shall be equal to the amount of income tax payable on the total income for any assessment year or an amount of 12,500, whichever is less.

S59. Ans.(a)
Sol. The previous year means the financial year immediately preceding the assessment year. The previous year will be from 1.7.2022 to 31.3.2023 for a Businessman who starts his business on 1st July 2022.

S60. Ans.(d)
Sol. Under the following cases Income from the previous year will be assessed in the previous year itself:
I. Shipping Business of Non-Resident: Where a ship, belonging chartered by a non-resident, such ship can leave only when 7.5% of the freight paid to the owner or any person on his behalf, whether in India or outside India on account of such carriage is deemed to be his income which is charged to tax in the same year in which it is earned.
II. Persons leaving India: When AO feels that the assessee may leave India with no intention to return, the total income of such individual for the period from the expiry of the respective previous year up to the probable date of his departure from India is chargeable to tax in that assessment year.
III. Artificial Judicial person formed for a particular purpose and which is likely to be dissolved next year.
IV. Discontinued business.

S61. Ans.(c)
Sol. Cost accounting refers to the process of accounting for a cost which begins with the recording of income and expenditure and ends with the preparation of periodical reports for ascertaining costs. It involves the collection, classification, and recording of all costs incurred in the operations of a business. This information is then used for various purposes such as cost control, decision-making, and performance evaluation. Management accounting (option b) is a broader term that encompasses cost accounting along with other accounting functions related to management decision-making.

S62. Ans.(c)
Sol. Cost driver refers to factors influencing the level of cost in a production activity. These are the specific activities or factors that cause costs to be incurred. Identifying and understanding cost drivers is crucial for effective cost management and control. They help in allocating costs to products or services based on the activities that drive those costs. This information is essential for making informed decisions about pricing, process improvements, and resource allocation.

S63. Ans.(a)
Sol. For the production of non-standard and non-repetitive products, the manufacturer should adopt **Job costing.**
Job costing is a costing method used when products are made to order or in small quantities, and each unit produced is unique or custom-made. It involves allocating costs to a specific job or project based on the direct costs and overhead costs associated with that particular job. This method is suitable for industries like construction, custom manufacturing, and specialized services where products are tailored to individual customer requirements.

S64. Ans.(b)
Sol. Batch production involves producing a specific quantity of a product in a batch or group before switching to another. This method incurs two major costs:
Machine set-up cost: This cost includes expenses associated with preparing the machines, equipment, and tools needed to produce a batch of products. It covers activities like configuring, adjusting, and testing the machinery for a specific production run.
Inventory holding cost: This cost pertains to the expenses incurred for storing and managing the inventory of partially finished or completed products between production runs. It includes costs related to warehousing, handling, insurance, and potential obsolescence.

S65. Ans.(a)
Sol. Under the FIFO (First In First out) method the units completed and transferred are taken from both opening work-in-process (WIP) and freshly introduced materials/inputs. The cost to complete the opening WIP and other completed units is calculated separately. The cost of opening a WIP is added to the cost incurred on completing the incomplete (WIP). Further, the closing stock of work in process is valued at the current cost.

S66. Ans.(c)
Sol. A modification in an accounting policy should primarily be implemented when there are legal requirements, adherence to accounting standards, or a need to improve the clarity and transparency of financial statements. These changes are not made at the discretion of management for optimization or preference of stakeholders (options a and b). Additionally, changes should not be made haphazardly, but rather with careful consideration of potential impacts on the entity's financial performance (option d).

S67. Ans.(a)
Sol. In the double-entry accounting system, the journal and ledger play distinct but interconnected roles:
Journal: The journal is where financial transactions are initially recorded in chronological order. It includes details like the date, accounts involved, descriptions, and amounts. This provides a detailed record of all transactions.
Ledger: The ledger is a more organized and summarized form of recording. It takes the information from the journal and classifies it into specific accounts (like cash, accounts receivable, accounts payable, etc.). Each account in the ledger shows all the transactions related to that account. The ledger provides a clear and consolidated view of the financial position of a business.

S68. Ans.(c)
Sol. Total Assets = Sum of Debit Balances
Total assets = 300,000 + 300,000 + 500,000 + 25,000 + 750,000 + 1,800,000
Total Assets = 3,675,000

S69. Ans.(a)
Sol. Book Value of Buildings = Buildings - Accumulated Depreciation
= 1,800,000 – 150,000
= 1,650,000

S70. Ans.(d)
Sol. Net Profit = Sales Revenue - Cost of Goods Sold - Operating Expenses - Income Tax Expense
Net profit = 2,200,000 - 1,100,000 – 40,000 – 200,000
Net profit = 860,000

S71. Ans.(b)
Sol. Retained Earnings = Previous Retained Earnings + Net Profit - Dividends
= 90,000 + 860,000 – 150,000
= 800,000

S72. Ans.(c)

Sol. To calculate depreciation using the units of production method, you need to determine the depreciation per unit and then multiply it by the actual units produced in the given period.

Step 1: Calculate Depreciation per Unit Depreciation per unit = (Cost of the machine - Estimated salvage value) / Estimated total units of production Depreciation per unit = (Rs. 200,000 - Rs. 0) / 100,000 = Rs. 2

Step 2: Calculate Depreciation Expense Depreciation expense = Depreciation per unit × Actual units produced Depreciation expense = Rs. 2 × 10,000 = Rs. 20,000

S73. Ans.(b)

Sol. In a bill of exchange, the debtor (drawer) initiates the transaction by directing the drawee (recipient) to pay a specified amount to a third party (payee). This facilitates the payment to the creditor.

In a promissory note, the creditor (payee) receives a written promise from the debtor (maker) stating an unconditional commitment to pay a specified sum at a specified time.

S74. Ans.(a)

Sol. 1. All new KCC must be issued as smart cards cum **debit cards**

2. Back offices carry out various functions to support the **front office operations**

S75. Ans.(c)

Sol. Capital expenditures are funds typically invested in obtaining, enhancing, or upgrading long-term assets that contribute to revenue generation, operational efficiency, or capability expansion.

(a) Expenditures for day-to-day maintenance of assets, including intangible ones, fall under revenue expenditures, distinct from capital expenditures. These costs are necessary for sustaining existing assets in operational condition.

(b) Costs associated with activities like establishing a new facility, launching a new product or service, conducting business in a different location, and general administrative expenses are not categorized as capital expenditures. They are primarily connected to ongoing business operations and expansion endeavors, falling under revenue expenditures.

(c) Expenses related to relocating or reorganizing portions or the entirety of an entity's operations are typically not classified as capital expenditures. These costs are typically linked to organizational adjustments and are treated as operational expenses.

(d) Costs related to internally generated assets like Goodwill, Brands, Mastheads, Publishing titles, Customer lists, and similar items do not fall under capital expenditures. Capital expenditures usually pertain to the acquisition of assets from external sources. Costs related to internally generated assets are typically expensed as incurred, rather than capitalized.

S76. Ans.(b)

Sol. Since JKL & Sons Ltd. borrowed money from SBI Bank on March 1, 2023, and the initial interest payment is due on June 1, 2023, there is a gap between when the interest expense is incurred and when it is paid. To accurately reflect the financial position of the company, an adjusting entry is needed to recognize the interest expense in the accounting period in which it is incurred. This ensures that the financial statements provide a true and fair view of the company's financial position and performance.

S77. Ans.(a)

Sol. Chartered company - A company formed with distinct privileges granted by a monarch or head of state through a special charter.

Statutory company - A company brought into existence through a unique law enacted by either the Central or State Legislature.

Registered company - legal entities formed by individuals or entities to conduct business activities, with limited liability and distinct legal status separate from their owners.

Foreign company - A company established outside of India but with an operational presence within the country.

S78. Ans.(b)

Sol. Comparative figures (or corresponding amounts) are essential in financial statements to enable stakeholders to assess the company's performance and financial position over different reporting periods. This is typically required for all financial statements after the initial one, ensuring that meaningful comparisons can be made to evaluate trends and changes in the company's financial performance.

S79. Ans.(c)

Sol. Changes in other current assets and current liabilities are crucial in the preparation of a cash flow statement because they directly impact the cash flows generated from the regular operational activities of the company. These changes reflect how cash is being generated or used in the core operations, making them a critical consideration in understanding the company's financial health and liquidity.

S80. Ans.(a)

Sol. Banks diverge from conventional accounting practices in their treatment of books of prime entry like cash books or journals. Unlike other enterprises, banks place relatively less emphasis on maintaining these records in real-time. Instead, they prioritize the immediate updating of their general ledger. This distinctive approach underscores the centrality of the general ledger in bank accounting, setting them apart from most other large-sized institutions that typically prioritize the up-to-date maintenance of their primary entry books.

S81. Ans.(b)

Sol. Data - A. Information, observations, presumptions, or events employed in accounting transactions.

Record - B. A cluster of data elements associated with a subject of data handling.

Data File or File - C. An organized collection of interconnected data entries preserved in a specific sequence.

System - D. Assorted elements responsible for managing data and generating outcomes, encompassing individuals, accounting records, and technological resources/software in accounting frameworks.

S82. Ans.(a)

Sol. I. This statement is correct. Business ethics involves determining what is morally right and wrong in business practices.

II. This statement is correct. Business ethics primarily revolve around the interests of shareholders and stakeholders, as they are key players in a company's operations.

III. This statement is correct. It is customary for companies to have a well-documented code of conduct that outlines their principles of corporate ethics.

IV. This statement is incorrect. Social responsibility and business ethics are related but distinct concepts. Social responsibility pertains to a company's impact on the environment and community, whereas business ethics encompass a broader range of ethical considerations in business dealings.

V. This statement is correct. A company's reputation, influenced by its adherence to ethical practices, significantly affects its success. A positive ethical reputation can attract resources, top talent, and loyal customers, leading to business growth and an increased market share.

S83. Ans.(a)

Sol. Debt Equity Ratio = Debt/Equity

Here, Debt means Long-term Debts and Equity means Shareholder's Funds

Long-Term Debts = 12% Mortgage Loan
= 1,20,000

Shareholder's Funds = Equity Share Capital + Preference Share Capital + General Reserve + Profit and Loss Balance
= 3,00,000 + 1,60,000 + 80,000 + 90,000 = 6,30,000

Hence, Debt Equity Ratio = 1,20,000/6,30,000 = 0.19:1

S84. Ans.(d)

Sol. Current Ratio = Current Assets / Current Liabilities

Given Current Ratio = 2: 1

So, Current Assets = 2 * Current Liabilities

Quick Ratio = Quick Assets / Current Liabilities

Given Quick Ratio = 1.6: 1

So, Quick Assets = 1.6 * Current Liabilities

Now, you provided that Current Liabilities are 3,00,000.

Calculations:

Current Assets = 2 * 3,00,000 = 6,00,000

Quick Assets = 1.6 * 3,00,000 = 4,80,000

To find Inventory, we can use the formula:

Inventory = Current Assets - Quick Assets

Inventory = 6,00,000 - 4,80,000 = 1,20,000

S85. Ans.(c)

Sol. In loans with Floating Rates, the interest rate is linked to a benchmark rate, such as the prime rate or LIBOR. Consequently, this allows the interest rate to fluctuate in response to shifts in market conditions. This stands in contrast to Fixed Rates, which remain stable throughout the loan term. The variability of Floating Rates means that the total interest paid over the life of the loan may change, depending on market dynamics and the movements of the chosen benchmark rate.

S86. Ans.(c)

Sol. I. This statement is correct. When the required rate of return equals the coupon rate, the bond is valued at its par value because the interest payments align with market expectations.

II. This statement is accurate. If the required rate of return exceeds the coupon rate, the bond's value is lower than its par value. This is because the bond's fixed interest payments are less attractive to investors compared to prevailing market rates. As a result, the bond's value decreases.

S87. Ans.(d)

Sol. I. This statement is correct. When the spot rate and the forward rate are the same, they are said to be "at par." This means there is no premium or discount associated with the forward rate.

II. This statement is accurate. In the case of direct rates, if the forward rate is higher than the spot rate, it implies that the base currency is at a premium. This indicates that the forward exchange rate is more favorable for the holder of the base currency.

III. This statement is also correct. In the case of direct rates, if the forward rate is lower than the spot rate, it signifies that the base currency is at a discount. This suggests that the forward exchange rate is less favorable for the holder of the base currency compared to the spot rate.

S88. Ans.(d)

Sol. WACC = (Cost of debt × proportion of debt) + (Cost of equity × proportion of equity)

WACC = 15 × 0.3 + 18 × 0.7

WACC = 4.5 + 12.6

WACC = 17.1%

S89. Ans.(d)
Sol. I. The Net Operating Income Approach emphasizes that a firm's value (or WACC) is primarily determined by its operating profit (EBIT).
II. Contrary to the Net Operating Income Approach, the total interest cost on debt does not directly impact the operating profit (EBIT).
III. The Net Operating Income Approach maintains that while the cost of debt remains steady, an escalation in the proportion of debt in the capital structure leads to a higher total interest cost on debt, assuming total capital remains constant.
IV. In contrast to the Net Operating Income Approach, it states that the cost of equity rises as the proportion of debt increases.

S90. Ans.(a)
Sol. Statement 1 correctly describes the purpose of the payback method, which is to measure the time taken for the receipts from an investment to pay back the cost of the investment.
Statement 2 accurately states that the payback method can be used to rank mutually exclusive projects by choosing those with the shortest payback period.
Statement 3, on the other hand, is incorrect. The payback method actually does not consider the time value of money, which is one of its limitations.

S91. Ans.(a)
Sol. The accurate statements are:
- In a leveraged lease, the lessor obtains a loan to acquire an asset, which is then leased to the lessee.
- The lessor retains ownership of the asset.
- This form of lease involves three parties: the lessor, the lessee, and the lender.
- From each lease payment made by the lessee, a portion goes to the lender for debt repayment, while the rest is received by the lessor.
- Both the leased asset and the lease payments made by the lessee serve as collateral for the lender.

S92. Ans.(c)
Sol. NWC = Total Current assets – total current liabilities
So, NWC = 200 – 95 = 105 lac
Current Ratio = Current assets/ current liabilities
So, Current Ratio = 200/95 = 2.1:1

S93. Ans.(b)
Sol. Derivatives typically require a relatively small initial investment compared to the potential exposure or payoff they offer. This characteristic of derivatives is one of the reasons they are popular among investors and traders for managing risk or speculating on price movements. It allows market participants to gain exposure to a larger underlying asset or market with a smaller upfront cost. However, it's important to note that while the initial capital outlay may be small, the potential gains or losses from derivatives can be significant. It's crucial to understand the risks involved before engaging in derivative transactions.

S94. Ans.(c)
Sol. The ability-to-pay principle in income tax policy suggests that individuals with higher incomes have a greater capacity to bear the burden of taxes. This principle supports a progressive tax system, where tax rates increase as income levels rise. This method promotes wealth redistribution by ensuring that those who can afford to contribute more do so. It is a way to address income inequality and help fund government programs that benefit society as a whole.

S95. Ans.(b)
Sol. The fundamental principle underlying the concept of Input Tax Credit (ITC) in the GST system is to allow businesses to claim credit for taxes paid on their inputs. This credit can then be used to offset the tax liability on their output supplies, ensuring that taxes are levied only on the value added at each stage of the supply chain. This promotes fairness and prevents the cascading of taxes.

S96. Ans.(b)
Sol. A productive cost center is a unit within an organization that directly contributes to the production of goods or services. Its primary function is to actively engage in activities related to the manufacturing process, thereby directly impacting production output. This could include departments like manufacturing, production, or any other unit directly involved in creating the organization's products or services.

S97. Ans.(d)
Sol. A job cost card provides various benefits, such as furnishing precise and pertinent data for well-informed decision-making, ensuring efficient cost management, minimizing unproductive labor time, and establishing a vital connection between production control and costing departments. Additionally, it plays a crucial role in validating the accuracy of job accounts. These advantages collectively streamline operations and improve cost control measures. Consequently, all the options enumerated (1, 2, 3, 4, and 5) encompass the merits of employing a job cost card in job costing.

S98. Ans.(c)
Sol. In contract work, tasks are typically performed at a location separate from the contractor's usual workplace. Conversely, when handling a job, the work is usually conducted at the contractor's regular workspace. Another distinguishing factor between contracts and jobs lies in their scale and duration. Contracts tend to be more extensive and time-consuming compared to jobs. Moreover, contracts predominantly entail direct costs, which differs from job scenarios. Additionally, in cost evaluation, each contract is regarded as an individual cost unit, whereas job costing may involve multiple cost units.

S99. Ans.(c)

Sol. The standard cost for variable overheads per chair is 4 hours * Rs. 320/hr. = Rs. 1280

The actual cost for variable overheads per chair is 4.5 hours * Rs. 320/hr. = Rs. 1440

Variable Overhead volume or efficiency variance per chair = Actual Cost - Standard Cost = Rs. 1440- Rs. 1280 = Rs. 160

S100. Ans.(a)

Sol. Continuous alterations in **production methods** can render basic standards outdated.

Ideal standards are more **idealistic**, which can have a negative impact on employees' **motivation**.

Presently achievable standards are modified to account for shifts in **subjective factors**.

The organization's **peculiar nature** may lead management to adjust currently attainable standards.