



# SEBI Grade A (Paper-2) Question Bank

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## SEBI GRADE A 2020 (PAPER-2): QUESTION BANK

**Ques1. Batch Costing is suitable for**

- a) Sugar Industry
- b) Telecom Industry
- c) **Pharma Industry**
- d) Petroleum refining Industry

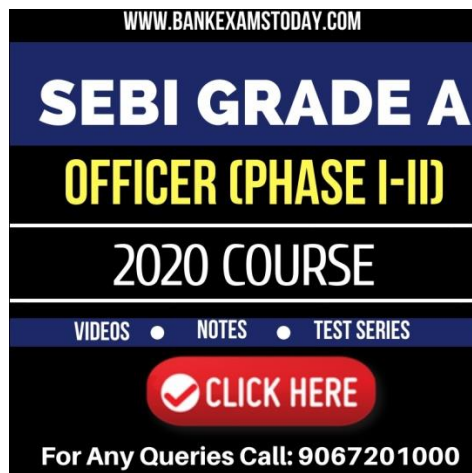
**Explanation:**

- **Batch Costing:** Batch Costing is the aggregate cost related to a cost unit which consists of a group of similar articles which maintains its identity throughout one or more stages of production. **Example:** Pharma industry.

**Ques2. Depreciation is a example of**

- a) **Fixed Cost**
- b) Variable Cost
- c) Semi Variable Cost
- d) None of these

**Explanation:** Fixed cost is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. **Example:** Rent, Depreciation...etc.



**Ques3. \_\_\_\_\_ cost are historical costs which are incurred in the past.**

- a) **Sunk cost**
- b) Imputed cost
- c) Notional cost

d) Marginal cost

**Explanation:** A sunk cost is a cost that has already been incurred and cannot be recovered.

**Ques4. Describe the cost unit applicable to the Bicycle industry:**

- a) per part of bicycle
- b) per bicycle**
- c) per tonne
- d) per day

**Explanation:** **Cost Unit** is a device for the purpose of breaking up or separating costs into smaller sub divisions attributable to products or services.

A few examples of cost units are given below:

Industry / Product	Cost Unit
Automobile	Number of vehicles
Cable	Metres / kilometres
Cement	Tonne
Chemicals / Fertilizers	Litre / Kilogram / tonne
Gas	Cubic Metre
Power - Electricity	Kilowatt Hour
Transport	Tonne-Kilometre, Passenger-Kilometre
Hospital	Patient Day
Hotel	Bed Night
Education	Student year
Telecom	Number of Calls
BPO Service	Accounts handled
Professional Service	Chargeable Hours

**Match the following:**

1	Historical Cost	A	Specific Situation
2	Opportunity Cost	B	Student year
3	Relevant Cost	C	Imputed Cost
4	Cost unit for education	D	Value of alternative foregone
5	Notional Cost	E	Sunk cost

**Ques5. Which of these is not a Material control technique:**

- a) ABC Analysis
- b) Fixation of raw material levels
- c) Maintaining stores ledger**
- d) Control over slow moving and non-moving items

**Solution:**

**Techniques of Material Control:**

1. ABC Analysis
2. Economic Order Quantity
3. Perpetual Inventory System
4. Review of Slow and Non-moving items
5. Use of control ratio
6. Settings of Various levels.

7. Use of Material Budgeting
8. Establishing an effective purchase procedure

**Ques6. Economic order quantity is that quantity at which cost of holding and carrying inventory is:**

- a) Maximum and equal
- b) Minimum and equal**
- c) It can be maximum or minimum depending upon case to case.
- d) Minimum and unequal

$$\text{Economic Ordering Quantity} = \sqrt{\frac{2AO}{C}}$$

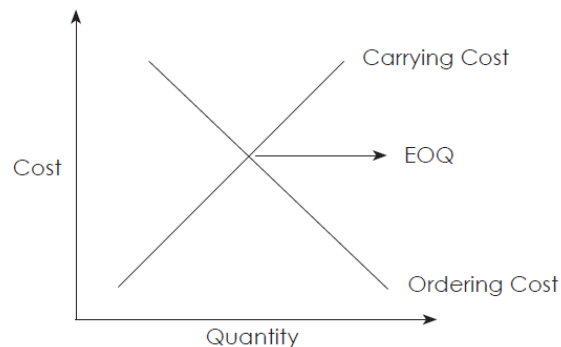
Where,

A = Annual demand /Consumption

O = Ordering Cost per order

C = Carrying Cost per unit per annum.

**Graphical representation of EOQ:**



**Ques7. Calculate EOQ (approx.) from the following details:**

Annual Consumption: 24000 units

Ordering cost: Rs. 10 per order

Purchase price: Rs. 100 per unit

Carrying cost: 5%

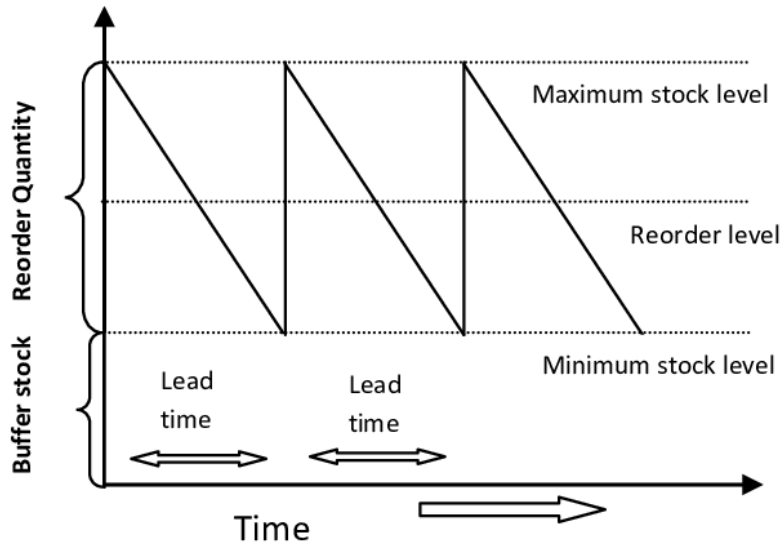
- a) 310**
- b) 400
- c) 290
- d) 300

**Solution:**

$$\begin{aligned}
 &= \sqrt{\frac{2AO}{C}} = \sqrt{\frac{2 \times 2400 \times 10}{5}} \\
 &= \sqrt{2 \times 2 \times 240 \times 10 \times 10} \\
 &= \sqrt{2 \times 2 \times 4 \times 4 \times 15 \times 10 \times 10} \\
 &= 2 \times 4 \times 10 \times 3.9 \\
 &= 310
 \end{aligned}$$

**Ques.8** Re-order level is calculated as:

- Maximum consumption x Maximum Lead period**
- Minimum consumption x Maximum Lead period
- 1/2 of (Minimum + Maximum consumption)
- Maximum level - Minimum level



- **Maximum Level** = Re-Order Level + Re-Order Qty – (Minimum Rate of Consumption X Minimum Re-Order Period)
- **Minimum Level** = Re-Order level – (Normal Rate of Consumption X Normal Re-Order Period)
- **Reorder level** = (Maximum usage × Maximum lead time) + Safety stock

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**Ques.9** Calculate Re-order level from the following:

- Consumption per week: 100-200 units
  - Delivery period: 14-28 days
- 5600 units
  - 800 units

- c) 1400 units
- d) 200 units

**Solution:**

Re-order Level = Maximum Usage × Maximum Lead time + Safety Stock  
=  $200 \times 28$   
= 5600

**Ques.10 ABC analysis is an inventory control technique in which:**

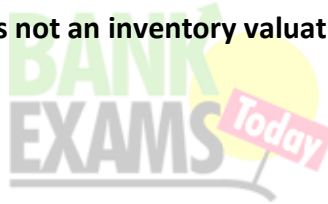
- a) Inventory levels are maintained
- b) Inventory is classified into A, B and C category with A being the highest quantity, lowest value.
- c) Inventory is classified into A, B and C Category with A being the lowest quantity, highest value**
- d) Either b or c.

**Solution:**

ABC Concept referred to as “**Always Better control or the alphabetic approach**”. ABC concept of classifying good an inventory is very commonly used for exercising effective inventory control. Under this technique, the items in inventory are classified according to value of usage. The higher value items have lower safety stocks, because the cost of protection is very high in respect of higher value items. The lower value items carry higher safety stocks.

**Ques.11 Which one out of the following is not an inventory valuation method?**

- a) FIFO
- b) LIFO
- c) Weighted Average
- d) EOQ**



**Solution:**

EOQ is not the part of inventory valuation method. EOQ can be defined as purchase order size which takes into account the optimum contribution of stock holding costs and ordering costs.

**Ques.12 Labour turnover means:**

- a) Turnover generated by labour
- b) Rate of change in composition of labour force during a specified period**
- c) Either of the above
- d) Both of the above

**Ques.13 Which of the following is not an avoidable cause of labour turnover:**

- a) Dissatisfaction with Job
- b) Lack of training facilities
- c) Low wages and allowances
- d) Disability, making a worker unfit for work**

**Ques.14 Calculate workers left and discharged from the following: Labour turnover rates are 20%, 10% and 6% respectively under Flux method, Replacement method and Separation method. No. of workers replaced during the quarter is 80.**

- a) 112
- b) 80
- c) **48**
- d) 64

**Explanation:** Using the Replacement method =

$$\frac{80}{x} = \frac{10}{100}$$
$$x = 800$$

Total number of workers - = 800

now we can easily find the workers separated which is 6% of total workers.

6% of 800 is 48 which is the correct answer.

#### **Separation Method:**

Under the Separation Method, the relationship between the number of workers separated or left from the organization and average number of workers of the organization in the period is expressed in terms of percentage.

- A worker may be left or separated from the organization due to surplus workers, poor working conditions and wages, less chance for promotion and the like.

The following formula is used to measure the labour turnover by Separation method.

- **Labour Turnover** = No. of workers left or separated during a period / Average number of workers on role during that period x 100
- **Average No.of. Workers** = (No. of workers at the beginning of the period + No. of workers at the end of the period) / 2

#### **Replacement Method:**

- There is no need of replacement if the surplus workers left from the organization. The workers whose services are required by the organization are to be replaced by new appointments if they leave.
- Hence, the relationship between the number of workers replaced and average number of workers of the organization in a period is expressed in terms of percentage under the replacement method.
- Generally, the replacement of labour is followed by the organization if skilled labourers are left from the organization. The following formula is used to measure the labour turnover by replacement method.
  - **Labour Turnover** = No. of workers replaced during a period / Average number of workers on role during that period x 100

#### **Flux Method:**

- This is the combination of separation method and replacement method. Both separation and replacement are taken into consideration to calculate labour turnover in Flux method.
- Hence, the relationship between both separation and replacement of labour force of the organization in a period and average number of workers on roll during that period is expressed in terms of percentage. The following formula is used to calculate labour turnover by flux method.

Labour Turnover = (No. of workers separated in a period + No. of workers replaced in the same period) / Average number of workers on role during that period x100

**Ques.15 Which is the following study is used to eliminate the wastefulness due to unnecessary motions ?**

- a) **Motion study**
- b) Method Study
- c) Time Study
- d) Fatigue Study

**Explanation:** **Motion study** is a systematic way of determining the best method of doing the work by scrutinizing the **motions** made by the worker or the machine. As per Gilbreath it is the science of eliminating the wastefulness due to unnecessary **motions**.

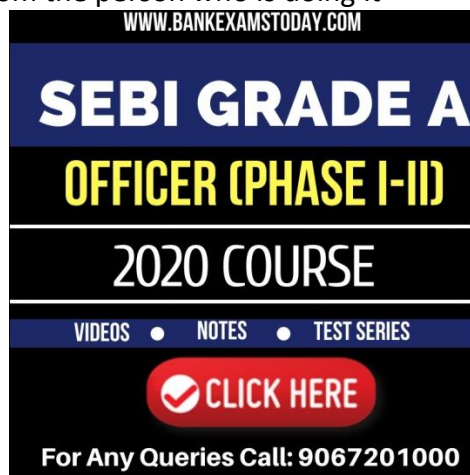
**Ques.16 Which of the following is a device to measure the worth of individual workers :**

- a) Job evaluation
- b) **Merit rating**
- c) Method study
- d) Fatigue study

**Explanation:** It is necessary for the management of any organization to establish proper wage and salary structure for various jobs. For doing this in a scientific manner, it is necessary to determine the relative value of jobs and hence a job evaluation is done. Job Evaluation is a technique of analysis and assessment of jobs to determine their relative value within the firm.

**Steps for Job Evaluation:**

- Identify and isolate component tasks in a job
- Examine how tasks are performed
- Examine why tasks are performed i.e. skills required
- Identify the mains duties performed
- Note the prevailing working conditions
- Identify what job demands from the person who is doing it



**Merit Rating:**

- Merit rating is a device to measure the worth of individual workers.



- While Job Evaluation measures the job, “Merit Rating” measures the Individual workers.
- Main objective of merit rating is to reward employee on the basis of efficiency and merit. Merit rating brings out the comparative worth of workers.

**Ques.17** The following is the performance of workers A, B and C in a factory ‘X’:

Workman	Units Produced	Time Taken
A	8	8 hours
B	10	8 hours
C	15	8 hours

- The other relevant information is as follows:
- Standard production per day of 98 hours work                      10 units
- Day Wage Guaranteed    Rs. 2 per hr.
- Bonus rate is 20%
- Calculate Wages of A, B and C under Gantt Task Bonus Plan.

**Solution:**

This system combines time rate, piece work system and bonus.

Output	Payment
If output is below standard	Time rate (guaranteed)
Output at standard	Bonus of 20% (usually) of time rate
Output above standard	120% of ordinary piece rate

**Ques.18** Standard time per piece                      15 minutes  
 Worker’s hourly rate                      Re. 1  
 Time worked                      9 hours  
 Output                      40 Pieces  
 Calculate the earnings of a worker under the Halsey Plan.

**Solution:**

Under this plan, a minimum hourly wage is paid. Standard hour to produce each unit may be computed on historical basis. In practice, the bonus is calculated to give the employee 50 percent of the time saved. The remaining 50 percent goes to the employer.

**Ques.19** Standard Time                      32 hours  
 Actual Time                      28 Hours  
 Wage rate per hour                      Re. 1 per hour  
 Work out earnings as per Rowan plan.

**Solution:**

Under Rowan Method, the worker’s day rate is guaranteed. A standard time is fixed and if a saving is effected by the worker, a percentage equal to the percentage of saving is added to the actual time taken.

**Example:**

Standard Time                                      32 hours  
Actual Time    28 Hours  
Wage rate per hour                                      Re. 1 per hour  
Work out earnings as per Rowan plan.

**Barth Sharing Plan**

Under this, a guaranteed time rate is not provided.

$$\text{Earning} = \text{Rate per hour} \times \sqrt{\text{Standard hours} \times \text{Hours worked}}$$

**Ques.20 Find out wages payable to the three workers A, B and C when time taken to complete the job are 6 hours, 5 hours and 4 hours respectively.**

The following further information is given:

- a) Time allowed for a job 5 hours, and
- b) Rate per hour Rs. 2

**Solution:** Group Bonus System

Following cost information is given about a factory:

- 1) Standard production= 80 units per week
- 2) No. of workers in the group= 20
- 3) Bonus= For every increase of 25% in the production, a bonus of Rs. 100 will be shared pro rata among the 20 members of the group
- 4) Actual production= 110 units

Calculate bonus payable to each member of the group.

**Ques.21 In case any person who has subscribed for securities of a company has suffered loss/damage as a consequence of acting on misleading prospectus, who among the following would be liable to pay the compensation?**

- a) Promoter of the company
- b) Person who authorized the issue of prospectus
- c) Director of the company (at time of issue)
- d) All of the above

**Answer:** (D) All of the above

**Concept:** Chapter III – Section 35

**Explanation:** Section 35 provides for Civil liability for mis-statements/omissions in Prospectus. Each of A, B & C shall be liable to pay compensation to every such party who has sustained loss or damaged due to any such omission/inclusion of statements.

**Ques.22 A prospectus which does not include complete particulars of the price of the securities is referred to as \_\_\_\_\_.**

- a) Red Herring Prospectus

- b) Deemed Prospectus
- c) Shelf Prospectus
- d) Abridged Prospectus

**Answer:** (A) Red Herring Prospectus

**Concept:** Chapter III – Section 32

**Explanation:** Section 32 specifies issue of Red-Herring Prospectus. It does not mention particular details about the price or quantum of securities included in them.

**Red Herring Prospectus** means a prospectus which does not include complete particulars of the quantum or price of the securities included therein.

Section 32 of the Act deals with Red Herring Prospectus. It provides that-

1. As per this section, a company proposing to make an offer of securities **may issue** a red herring prospectus prior to the issue of a prospectus.
2. A company proposing to issue a red herring prospectus shall **file it with the Registrar at least three days prior to the opening of the subscription list and the offer.**
3. A **red herring prospectus shall carry the same obligations as are applicable to a prospectus.** Any variation between the red herring prospectus and a prospectus shall be highlighted as variations in the prospectus.
4. Upon the closing of the offer of securities, the prospectus stating therein the total capital raised, whether by way of debt or share capital, and the closing price of the securities and any other details as are not included in the red herring prospectus shall be filed with the Registrar and the Securities and Exchange Board.



**Ques.23** A company offering securities under private placement, shall allot them within \_\_\_\_ days from the date of receipt of application money.

- a) Fifteen
- b) Thirty
- c) Sixty
- d) Ten

**Answer:** (C) Sixty

**Concept:** Chapter III – Part II – Section 42

**Explanation:** Sub-Section (6) of Section 42 clearly mentions that allotment shall be made within 60 days from date of receipt of application money. In case, company fails to do so, it would have to repay back the application money within 15 days (from date of completion of 60 days)

**Private Placement**

A sale of stocks, bonds, or securities directly to a private investor, rather than as part of a public offering.

**Ques.24 A duplicate share certificate can be issued in case**

- (I) It is proven to have been lost.
- (II) It has been torn & surrendered to the company

- a) Both Statement I & II are valid reasons
- b) Both Statement I & II are invalid reasons
- c) Statement I is valid but Statement II is invalid.
- d) Statement I is invalid but Statement I is valid.

**Answer:** (A) Both Statement I & II are valid cases

**Concept:** Chapter IV – Section 46

**Explanation:** A duplicate share certificate can be issued if the share has been lost or destroyed, has been defaced or mutilated or torn and is surrendered back to the company.

**Ques.25 Which of the following statement is true regarding issue of shares?**

- a) Companies cannot issue shares at discount under any circumstance
- b) Securities premium reserve can be used for writing off expenses on issue of equity shares of the company.
- c) Both A & B are true
- d) Both A & B are false.

**Answer:** (B) Securities premium reserve can be used for writing off expenses on issue of equity shares of the company.

**Concept:** Chapter IV - Section 52, 53 & 54

**Explanation:** Companies cannot issue shares at discount except in the case of sweat equity shares upon fulfilment of certain conditions (Section 53-54). Statement A is therefore false.

Statement B is true. Section 52 (sub-section 2) mentions in what situations can securities premium reserve be applied.

Statement B is true. Section 52 (sub-section 2) mentions in what situations can securities premium reserve be applied.

Notwithstanding anything contained in sub-section (1), the securities premium account may be applied by the company—

- (a) **towards the issue of unissued shares of the company** to the members of the company as fully paid bonus shares;
- (b) in **writing off the preliminary expenses** of the company;
- (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
- (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
- (e) for the purchase of its own shares or other securities under section 68.

**Ques.26 Given statements below are statements referring to debentures.**

- (I) No company can issue any debentures carrying any voting rights
  - (II) Debentures can be issued with an option to convert them into shares
- a) Both Statement I & II are true
  - b) Both Statement I & II are false
  - c) Statement I is true but Statement II is false
  - d) Statement I is false but Statement I is true.

**Answer:** (A) Both Statement I & II are true

**Concept:** Chapter IV – Section 71

**Explanation:** Debentures do not carry voting rights unlike Equity shares. Those debentures with option to convert into shares (at some specified date) are called convertible debentures. Both Statements are true, as per 71(2) of the Act.

**Ques.27 Dividend declared by a company that has not been claimed is transferred to**

- a) General Reserve
- b) Debenture Redemption Reserve
- c) Unpaid Dividend Account.
- d) Dividend Equalization Fund

**Answer:** (C) Unpaid Dividend Account

**Concept:** Chapter VIII – Section 124

**Explanation:** Section 124(1) puts forward the statement that unclaimed dividend (within 30 days of declaration + 7 days) shall be transferred to Unpaid dividend account by the company.

**Ques.28 The Investor Education & Protection Fund sources its funds majorly from which of these?**

- a) Central Government.
- b) Central Government & State Governments
- c) Central Government, State Governments & Donation from companies
- d) Investor protection awareness Programmes

**Answer:** (C) Central Government, State Governments & Donation from companies

**Concept:** Chapter VIII – Section 125

**Explanation:** According to Sec 125(2a) & 125(2b), funds from Central Government, State Governments, companies or any other institutions can be credited to the account.

The fund can be used for expenses on Investor protection awareness programmes as mentioned under Section 125(3b).

**Ques.29** Every listed public company shall have at least \_\_\_\_\_ of the total number of directors as independent directors according to Companies Act 2013.

- a) One-fourth
- b) One-third
- c) Half
- d) One-Tenth

**Answer:** (B) One-Third

**Concept:** Chapter XI – Section 149

**Explanation:** According to Section 149 – Appointment & qualification of Directors, every listed public company shall have at least one-third of the total number of directors as independent directors.



**Ques.30** With reference to an application to Central government, 'DIN' is allotted to directors. What does 'I' stand for?

- a) Index
- b) Inquiry
- c) Identification
- d) Individual

**Answer:** (C) Identification

**Concept:** Chapter XI – Section 154

**Explanation:** DIN stands for Director Identification Number

**Ques.31** The position of a director is said to have become vacant when:

- (I) He is disqualified under Section 164 of Companies Act
- (II) He fails to disclose interest in any arrangement/contract
- (III) He absents himself from all Board Meetings for three months.

- a) Statement I & II are true
- b) Statement II & III are true
- c) Statement I & III are true
- d) All statements – I, II & III are true

**Answer:** (A) Statement I & II are true

**Concept:** Chapter XI – Section 167

**Explanation:** A director's position is said to have vacated under the conditions specified in Section 167(1). Statement I & II are listed in the Section.

Also, if the director absents himself from all meetings of Board for twelve months without any seeking absence/leave, the position is said to have been vacated.

**Ques.32 Every company shall hold the first meeting of the Board of Directors within \_\_\_\_\_ days of the date of its incorporation.**

- a) 45
- b) 60
- c) 30
- d) 15

**Answer:** (C) 30

**Concept:** Chapter XII – Section 173

**Explanation:** Sub-section 1 of Section 173, prescribes first meeting to be held within 30 days of incorporation date.

**Ques.33 What is the quorum required for a Board of Directors meeting according to Companies Act, 2013?**

- a) One-Third of total strength of Directors
- b) Two Directors
- c) A or B – Whichever is lower
- d) A or B – Whichever is higher

**Answer:** (D) A or B – Whichever is higher

**Concept:** Chapter XII – Section 174

**Explanation:** Quoting from 174(1) – 'The quorum for a meeting of the Board of Directors of a company shall be one-third of its total strength or two directors, whichever is higher.'

**Ques.34 Which of these is not a criterion for disqualification of an auditor under Section 141 of Companies Act?**

- a) Being an officer/employee of the company
- b) Person who has direct relationship with subsidiary of the company
- c) Relatives of Director

d) A partner of audit firm holding appointment as auditor in 15 companies

**Answer:** (D) A partner holding appointment as auditor 15 companies

**Concept:** Chapter X - Section 141

**Explanation:** Option D would have been disqualification if the auditor held appointment in more than 20 companies. (Section 141(3g))

**Ques.35 In case of a Government Company, auditor is appointed by the \_\_\_\_\_**

- a) Directors
- b) State Government
- c) Finance Minister of India
- d) Comptroller & Auditor General of India

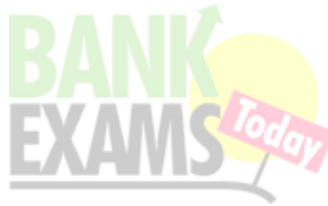
**Answer:** (D) Comptroller & Auditor General of India

**Concept:** Chapter X – Section 139

**Explanation:** The Comptroller and Auditor General (CAG) of India appoints the auditor under sub-section (5) or sub-section (7) of section 139.

**Ques.36 An auditor can render to the firm**

- a) Investment banking services
- b) Management services
- c) Both A & B
- d) Neither A nor B



**Answer:** (D) Neither A nor B

**Concept:** Chapter X – Section 144

**Explanation:** Under Section 144, Auditors cannot render services like internal audits, investment banking, management or actuarial services.

**Ques.37 Which of these does not qualify for appointment as Judicial member of Tribunal?**

- a) Judge of High court for five years.
- b) Judge of District Court for three years
- c) Advocate of a court for ten years.
- d) All of these.

**Answer:** (B) Judge of District Court for three years

**Concept:** Chapter XXVII – Section 409

**Explanation:** To qualify as Judicial member, a person should/should-have-been a High Court Judge, A district judge for five years or an advocate of a court for ten years.

Hence, B does not qualify.

**Ques.38 Who among these is not a part of the selection committee of Tribunal members?**

- a) Chief Justice of India
- b) Senior Judge of Supreme Court/Chief Justice of a High Court



- c) Secretary in Ministry of Corporate Affairs
- d) Minister of State of Law & Justice Answer

**Answer:** (D) Minister of State of Law & Justice

**Concept:** Chapter XXVII – Section 412

**Explanation:** Secretary in Ministry of Law & Justice is member of the selection committee not Minister of State. The CJI or his nominee presides over as Chairman.

**Ques.39 Any person aggrieved by any order of the Appellate Tribunal may file an appeal to \_\_\_\_\_.**

- a) High Court of Concerned State
- b) Law & Justice Ministry of India
- c) Supreme Court of India
- d) Tribunal Bench, Delhi

**Answer:** (C) Supreme Court of India

**Concept:** Chapter XXVII – Section 423

**Explanation:** Section 423 provides for the aggrieved party to appeal to supreme court within sixty days of receipt of such an order from the Appellate Tribunal.



**Ques.40 An audit committee constituted by Board of Directors of a listed company shall consist of minimum of \_\_\_\_ directors.**

- a) 2
- b) 7
- c) 5
- d) 3

**Answer:** (D) 3

**Concept:** Chapter XII – Section 177

**Explanation:** Section 177(2) states that the Audit Committee shall consist of a minimum of 3 directors with independent directors forming a majority, provided that the members can read and understand financial statements.

**Ques.41** A meeting of the Board shall be called by giving not less than \_\_\_\_\_ days of notice in writing to every director.

- a) 3
- b) 7
- c) 14
- d) 20

**Answer:** (B) 7 days

**Concept:** Chapter XII – Section 173

**Explanation:** The notice shall be at least 7 days prior to the date of meeting which shall either be postally delivered, or by electronic means.

**Ques.42** The maximum number of public companies where a person can hold position as a director is \_\_\_\_\_.

- a) 5
- b) 10
- c) 15
- d) 20

**Answer:** (B) 10

**Concept:** Chapter XI – Section 165

**Explanation:** The number of companies where a person can serve as a director is a maximum of 20 at the same time, but 10 in case of public companies.

**Ques.43** Which of these is renders the appointment of a director of a company as ineligible?

- (I) The person is of unsound mind
  - (II) The person is an undischarged insolvent
  - (III) The person has not paid any calls in respect of his share since last six months.
- a) Statements I & II
  - b) Statements I & III
  - c) Statements II & III
  - d) Statements I, II & III

**Answer:** (D) Statements I, II & III

**Concept:** Chapter XI – Section 164

**Explanation:** All three statements are valid arguments to render an appointment of a director as ineligible.

**Ques.44** Within \_\_\_\_\_ of being allotted a DIN, the existing director of a company shall inform the same to the company.

- a) 2 months
- b) 3 weeks
- c) 1 month
- d) 1 week

**Answer:** (C) 1 month

**Concept:** Chapter XI – Section 156

**Explanation:** Director after being allotted the Director Identification number shall intimate the same to the company within one month.

**Ques.45 Minimum number of directors in Board of Directors of a public company shall be:**

- a) 2
- b) 3
- c) 1
- d) 5

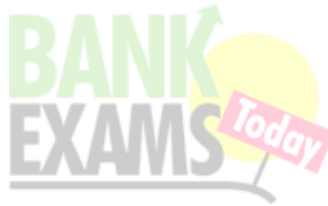
**Answer:** (B) 3

**Concept:** Chapter XI – Section 149

**Explanation:** Public Company shall have a minimum of 3 directors & Private Company shall have minimum of 2 directors, and one director in case of One-person Company.

**Ques.46 An auditor who has resigned shall file a statement with the Company & the Registrar within \_\_\_\_ days from the date of resignation indicating the reasons for the same.**

- a) 15
- b) 30
- c) 45
- d) 60



**Answer:** (B) 30

**Concept:** Chapter X – Section 140

**Explanation:** 140(2) states that an auditor who has resigned shall file a statement within 30 days with the Company & the Registrar, and to the CAG in case of companies listed under 139(5) indicating the reasons of the resignation.

**Ques.47 Where at any annual general meeting, no auditor is appointed or re-appointed**

- a) The place shall have been considered to be vacated
- b) The existing auditor will continue as auditor of the company
- c) New auditor will be appointed by the CAG
- d) Company would not have an auditor at all.

**Answer:** (B) The existing auditor will continue as auditor of the company

**Concept:** Chapter X – Section 139

**Explanation:** Section 139(10) states that existing auditor will continue as auditors of the company in case no appointment/re-appointment has been made at the annual general meeting of the company.

**Ques.48 A retiring auditor can be reappointed at an annual general meeting if:**

- a) He is not disqualified for appointment
- b) He has given his unwillingness to continue as auditor
- c) Special resolution has been passed to not re-appoint him.

d) Retiring auditor can never be reappointed.

**Answer:** (A) He is not disqualified for appointment

**Concept:** Chapter X – Section 139(9)

**Explanation:** A retiring partner can be reappointed if he is not disqualified, if he has not submitted his unwillingness to continue or if a special resolution has not been passed not to re-appoint him.

**Ques.49 Auditor appointed at the first annual general meeting shall hold office till conclusion of \_\_\_\_\_ annual general meeting.**

- a) Fifth
- b) Second
- c) Sixth
- d) Third

**Answer:** (C) Sixth

**Concept:** Chapter X – Section 139

**Explanation:** Section 139(1) - Every company, shall, at its first annual general meeting, appoint an auditor who will hold office from conclusion of first meeting till the conclusion of sixth general meeting.



**Ques.50 The Investor Education & Protection Fund can be used for:**

- (I) promotion of investor awareness
  - (II) refund in aspects of unclaimed dividends & matured deposits
- a) Both I & II
  - b) Only I
  - c) Only II
  - d) Neither I nor II

**Answer:** (A) Both I & II

**Concept:** Chapter VIII – Section 125(3)

**Explanation:** The fund can be utilized in respect of refunds in cases of unclaimed dividends, matured deposits, matured debentures, promotion of investors protection/awareness, reimbursement of legal expenses incurred in pursuing class action suits under sections 37 & 245 by the members etc.

**Ques.51** In case of physical shares documents, the same shall be destroyed within \_\_\_\_ days by the company in case of buy-back.

- a) 15
- b) 7
- c) 21
- d) 30

**Answer:** (B) 7 Days

**Concept:** Chapter IV – Section 68(7)

**Explanation:** The company shall destroy physically the share/securities so bought back within 7 days of completion of buy-back.

**Ques.52** Company can buy back without special resolution at the general meeting if:

- a) Buy back is less than 25% of total paid-up equity capital & free reserves
- b) Buy back is less than 49% of total paid-up equity capital & free reserves
- c) Buy back is less than 10% of total paid-up equity capital & free reserves
- d) Buy back is less than 15% of total paid-up equity capital & free reserves

**Answer:** (C) Buy back is less than 10% of total paid-up equity capital & free reserves

**Concept:** Chapter IV – Section 68(2)

**Explanation:** Section 68 provides for special resolution at the general meeting in case of buy-backs. Quoting 68(2) – ‘... Provided that nothing contained in this clause shall apply to a case where— (i) the buy-back is, ten per cent. or less of the total paid-up equity capital and free reserves of the company....’

**Ques.53** Bonus shares cannot be issued from:

- a) Capital Redemption Reserve
- b) Securities Premium Reserve
- c) Free Reserves
- d) Reserve created from Revaluation of Assets

**Answer:** (D) Reserves created from Revaluation of Assets

**Concept:** Chapter IV – Section 63

**Explanation:** Section 63(1) states that no issue of fully paid bonus shares to its members shall be made by capitalizing reserves created from Revaluation of Assets.

**Ques.54** If any person deceitfully personates a shareholder/owner of a security, the person shall be punishable with

- a) Fine not less than 1 lakh
- b) Imprisonment not less than 1 lakh
- c) Either A or B
- d) Both A & B

**Answer:** (D) Both A & B

**Concept:** Chapter IV – Section 57

**Explanation:** Minimum 1 lakh & Maximum of 5 lakhs along with an imprisonment not less than 1 year up to 3 years as penalty is stated under Section 57.

**Ques.55 Companies that redeem Preference shares out of profits shall transfer an amount equivalent to face value of these shares in \_\_\_\_\_ account.**

- a) General reserve
- b) Debenture Redemption Reserve
- c) Capital Redemption Reserve
- d) Securities Premium Reserve

**Answer:** (C) Capital Redemption Reserve

**Concept:** Chapter IV – Section 55

**Explanation:** Section 55(2c) states for creation of Capital redemption reserve and an amount equal to nominal value of preference shares to be redeemed out of be transferred to it.

**Ques.56 If a company issues shares at discount (except sweat equity), in the contravention of the Companies Act, the company shall be punishable with a fine not less than \_\_\_\_\_**

- a) 1 lakh
- b) 2 lakhs
- c) 5 lakhs
- d) 10 lakhs

**Answer:** (A) 1 lakh rupees

**Concept:** Chapter IV – Section 53

**Explanation:** The minimum & maximum fines for violation of this section are 1 lakh & 5 lakh rupees respectively.

**Ques.57 Given below are statements on shares:**

- (I) Every share in a company having a share capital shall be distinguished by its distinctive number.
- (II) Preference Shares carry preferential rights over repayment on winding-up.

- a) Statements I & II are true
- b) Statements I & II are false
- c) Statement I is true but Statement II is false.
- d) Statement I is false but Statement I is true.

**Answer:** (A) Statement I & II are true

**Concept:** Chapter IV – Section 43 & 45

**Explanation:** Preference Shares have preferential right over payment of (i) dividend & (ii) repayment in case of winding-up.

**Ques.58 If a company fails to return/refund the application money in case of non-allotment during the specified period in case of a private-placement, it will be liable to repay the money with interest at the rate of \_\_\_\_\_ % p.a.**

- a) 10%

- b) 6%
- c) 12%
- d) 8%

**Answer:** (C) 12%

**Concept:** Chapter III – Part II

**Explanation:** Quoting from Section 42(6)

‘.....if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent. per annum from the expiry of the sixtieth day.’



**Ques.59 All money received in case of a private placement cannot be paid through:**

- a) Cheques
- b) Cash
- c) Demand Draft
- d) Banking Channels

**Answer:** (B) Cash

**Concept:** Chapter III – Part II

**Explanation:** Section 42(5) states that the monies received can be through cheques, demand drafts, or any other banking channels but not cash.

**Ques.60 A prospectus issued for subscription in one or more class of securities is referred to as \_\_\_\_\_.**

- a) Abridged Prospectus
- b) Red Herring Prospectus
- c) Shelf Prospectus
- d) None of these

**Answer:** (C) Shelf Prospectus

**Concept:** Chapter III – Section 31

**Explanation:** Shelf prospectus is a type of public offering that allows to offer/sell securities to the public with a common prospectus. (not separate ones).

**Ques.61 Which of the following information(s) is not stated in the prospectus?**

- a) Details about underwriting of the issue
- b) Capital structure of the company
- c) Names & addresses of Directors
- d) All of these are stated in the prospectus.

**Answer:** (D) All of these are stated in the prospectus

**Concept:** Chapter III – Section 26

**Explanation:** A list of details mentioned in prospectus is mentioned in Section 26(1a). All of the above stated documents/details are furnished in a prospectus.

**Ques.62 In which of these ways can a private company issue 'securities'?**

- a) Rights Issue or Bonus Issue
- b) Private Placement
- c) Offer to Public through prospectus
- d) Both A & B

**Answer:** (D) Both A & B

**Concept:** Chapter III – Section 23

**Explanation:** A public company can issue securities by either of (A), (B) or (C). However, a private company cannot offer securities to public through prospectus.

**Ques.63 Given below are statements on qualifications/disqualifications of an auditor:**

(I) An individual shall be eligible for appointment as an auditor of a company only if he is a Chartered Accountant.

(II) A body corporate other than an LLP shall not be eligible for appointment as an Auditor.

- a) Statements I & II are true
- b) Statements I & II are false
- c) Statement I is true but Statement II is false.
- d) Statement I is false but Statement I is true.

**Answer:** (A) Statement I & II are true

**Ques.64 The ratio that gives the relationship between contribution & sales value:**

- a) Break Even Ratio
- b) Profit Volume Ratio
- c) Margin of Safety Ratio
- d) None of these

**Answer:** (B) Profit Volume Ratio

**Concept:** Marginal Costing

**Explanation:** Profit Volume Ratio = Contribution/Sales.

**Ques.65 The correct formula for Break even Point (in units):**



- a) Fixed Cost/Variable Cost
- b) Contribution/Fixed Cost
- c) Fixed Cost/Contribution per unit
- d) Variable Cost/Contribution per unit

**Answer:** (C) Fixed Cost/Contribution per unit

**Concept:** Marginal Costing

**Explanation:** Formula for BE point (in units) is Fixed Cost/Contribution per unit. It is a point where there is neither profit nor loss.

**Ques.66** If projected sales are 10,000 units & Breakeven sales is 2000 units, Margin of safety will be \_\_\_\_\_ units.

- a) 12,000
- b) 8,000
- c) 5,000
- d) 2,000

**Answer:** (B) 8,000 units

**Concept:** Marginal Costing

**Explanation:** Margin of Safety = Projected Sales – Break even Sales = 10,000 – 2,000 = 8,000.

**Ques.67** Variance which arises due to changes in actual sales quantity from budgeted quantity is called \_\_\_\_\_.

- a) Sales Volume variance
- b) Sales Margin volume variance
- c) Sales Margin Price variance
- d) Sales price variance

**Answer:** (A) Sales Volume variance

**Concept:** Standard Costing

**Explanation:** Sales Volume Variance = Budgeted Price x (Actual Qty – Budgeted Qty)

**Ques.68** Labour Rate Variance =

- a) Actual Time x (Std. Rate – Actual Rate)
- b) Actual Time x (Actual Rate – Actual Time)
- c) Actual Rate x (Std. Time – Actual Time)
- d) Actual Time x (Std. Time – Actual Rate)

**Answer:** (A) Actual Time x (Std. Rate – Actual Rate)

**Concept:** Standard Costing

**Explanation:** Formula for LRV = Actual Time x (SR – AR)

**Ques.69** If the completion of contract is less than 25%, \_\_\_\_\_ profit should be transferred to Profit & Loss account

- a) 1/3rd
- b) 2/3rd
- c) 1/4th
- d) No profit

**Answer:** (D) No

**Concept:** Contract Costing

**Explanation:** In case of incomplete contracts with less than 25% completion rate, no profit shall be transferred to Profit & Loss account.



**Ques.70** In contract costing, \_\_\_\_\_ provides a safeguard against risk of loss due to poor work.

- a) Retention Money
- b) Progress Money
- c) Commission
- d) None of these

**Answer:** (A) Retention Money

**Concept:** Contract Costing

**Explanation:** Retention Money = Value of Work Certified – Payment made

**Ques.71** The process of charging both – fixed & variable costs to the processes/products is called \_\_\_\_\_

- a) Direct Costing
- b) Marginal Costing
- c) Absorption Costing
- d) Historical Costing

**Answer:** (C) Absorption Costing

**Concept:** Techniques of Costing

**Explanation:** Absorption Costing involves practice of charging all costs. Marginal Costing excludes fixed costs. Historical costing ascertains costs only after they have been incurred.

**Ques.72** Identify the wrongly matched cost method:

- a) Sugar Industry – Process Costing
- b) Cold Drinks – Unit Costing
- c) Advertising – Job Costing
- d) Real Estate – Operating Costing

**Answer:** (D) Real Estate – Operating Costing

**Concept:** Cost Methods

**Explanation:** Contract Costing is more suitable for Real Estate industry.

**Ques.73** The costs that do not play any decision making in the current period are called \_\_\_\_\_

- a) Period Costs
- b) Marginal Costs
- c) Opportunity Costs
- d) Sunk Costs

**Answer:** (D) Sunk Costs

**Concept:** Introduction to Cost & Management Accounting

**Explanation:** Sunk Costs are historical cost. (incurred in the past). They do not play a role in current decision making.

**Ques.74** Which of the following items is not included in calculating the acid test ratio?

- a) 6-month treasury bill
- b) Accounts Receivable
- c) 60-day Certificate of Deposit
- d) Prepaid Insurance



**Answer:** (D) Prepaid Insurance

**Explanation:** Acid Test Ratio= Quick Assets (Marketable Securities, Cash, etc.)/Current Liabilities Quick Assets include all the current assets that can be converted into liquid assets quickly. Although Prepaid Insurance is a short term current asset, it is not a liquid asset. Therefore, it will not be included in the calculation of the acid test ratio.

**Ques.75** Calculate the Operating Ratio. Operating Expense= Rs. 50,000, Sales= Rs. 9,00,000, Sales Return= Rs. 60,000, Cost of Goods Sold= 5,00,000

- a) 65.48%
- b) 70.00%
- c) 62.54%
- d) 68.20%

**Answer:** (A) 65.48%

**Explanation:** Operating Ratio= (Operating Expenses/ Net Sales) x 100

Total Operating Expense= Operating Expense + Cost of Goods Sold= 50,000+5,00,000= 5,50,5000

Net Sales= Sales- Sales Return= 9,00,000-60,000= 8,40,000

Therefore, Operating Ratio= (5,50,000/ 8,40,000) x 100= 65.48%

Cost of goods sold + Administrative expenses + Selling expenses

**Ques.76 Debtors Turnover Ratio is also called**

- I. Receivables Turnover Ratio
  - II. Stock Velocity
  - III. Payable Turnover Ratio
  - IV. Debtors Velocity
- a) 1. and 4.
  - b) 2. and 3.
  - c) 3. and 4.
  - d) 1. and 3.

**Answer:** (A) 1. and 4.

**Explanation:** Debtors Turnover Ratio measures how fast credit sales turn into cash and it also provides an estimate of a company's efficiency in managing the credit the company gives to its customers.

Accounts Receivable Turnover Ratio=  $\frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$

**Ques.77 Calculate the working capital turnover ratio: Current Assets= Rs. 2,50,000, Current Liabilities= Rs. 2,00,000, Cost of Goods Sold= Rs. 5,00,000**

- a) 11 times
- b) 8 times
- c) 10 times
- d) 5 times

**Answer:** (C) 10 times

**Explanation:** Working Capital Turnover Ratio= Cost of Goods Sold/ Working Capital

Working Capital= Current Assets- Current Liabilities

= 2,50,000 - 2,00,000

= 50,000

Therefore, Working Capital Turnover Ratio= 5,00,000/ 50,000= 10 times

**Ques.78 A higher asset turnover ratio than the industry average means that**

- a) The company is efficiently utilising its assets better than all other companies in the industry
- b) The P/E ratio of the company is better than all other companies in the industry
- c) The profits of the company are better than all other companies in the industry

d) The company has the highest spending on fixed assets than all other companies in the industry

**Answer:** (A) The company is efficiently utilising its assets better than all other companies in the industry

**Explanation:** Asset Turnover Ratio basically tells us that company is utilising its assets more efficiently to generate sales. When the ratio is higher than the industry average it means that the company is efficiently utilising its assets to generate sales when compared to other companies in the same industry.



**Ques.79** Calculate Gross Profit Ratio, Total Sales= Rs. 3,60,000, Cost of Goods Sold= Rs. 3,00,000, Sales Return= Rs. 20,000

- a) 13.87%
- b) 12.00%
- c) 14.52%
- d) 11.76%

**Answer:** (D) 11.76%

**Explanation:** Net Sales= 3,60,000- 20,000= 3,40,000

Gross Profit= Net Sales- Cost of Goods Sold

= 3,40,000- 3,00,000

= 40,000

Gross Profit Ratio= (Gross Profit/ Net Sales) x 100

= (40,000/ 3,40,000) x 100

= 11.76%

**Ques.80** Calculate Inventory Turnover Ratio, Opening Stock= Rs. 40,000, Closing Stock= Rs. 20,000, Sales= Rs. 4,00,000, Gross Profit Ratio= 25% on sales.

- a) 6 times

- b) 10 times
- c) 8 times
- d) 7 times

**Answer:** (B) 10 times

**Explanation:** Inventory Turnover Ratio= Cost of Goods Sold/ Average Inventory

Gross Profit on sales= 25%. Therefore, Gross Profit= 1,00,000

Cost of Goods Sold= Sales- Gross Profit

= 4,00,000- 1,00,000

= 3,00,000

Average Inventory= (Opening+ Closing Stock)/ 2

= (40,000+ 20,000)/ 2

= 30,000

Inventory Turnover Ratio= 3,00,000/ 30,000

= 10 times

**Ques.81 Who bears the expenses in case of an offer for sale?**

- a) Underwriters
- b) The individual/ body corporate whose shares are being offered to the public**
- c) Existing shareholders
- d) Stock Exchange

**Answer –** As per section 28(3), the company shall initially do all necessary actions in respect of offer for sale and then be reimbursed for the same by the individual/ body corporate whose shares are being offered to the public. Thus, the individual/ body corporate whose shares are being offered to the public bears the total expenses in case of an offer for sale.

**Ques.82 Can private companies issue shares in physical form?**

- a) Yes**
- b) No
- c) Both (a) and (b)
- d) Neither (a) and (b)

**Answer –** As per section 29, only public companies are required to compulsorily issue shares in dematerialized form. **Thus, private companies can issue shares in physical form.**

**Ques.83 A company making a public issue shall make an application for permission for listing to which authority before making such a public offer?**

- a) **Stock Exchange**
- b) Ministry of Corporate Affairs
- c) Registrar of Companies
- d) SEBI

**Answer** – As per section 40, every company making public offer shall, before making such offer, **make an application to one or more recognised stock exchange or exchanges and obtain permission for the securities to be dealt with in such stock exchange or exchanges.** Thus, application for listing before making a public issue needs to be done with a stock exchange.

**Ques.84 Who can make a private placement of securities?**

- a) Private company
- b) Public company
- c) Dormant company
- d) **Both (a) and (b)**

**Answer** – As per section 42, both private and public companies can make private placement of securities.

**Ques.85 The proportion of a shareholder's voting rights in a company shall be made on the basis of?**

- a) Called up equity share capital
- b) **Paid up equity share capital**
- c) Preference share capital
- d) Uncalled equity share capital



**Answer** – As per section 47, proportion of a shareholder's voting rights in a company shall be made on the basis of paid up equity share capital.

**Ques.86 X. Ltd conducted a buyback of 20% of its total paid-up equity capital and free reserves and now wants to conduct a further buyback of 10% in the same financial year. Can it do so?**

- a) Yes
- b) **No**
- c) Both (a) and (b)
- d) Neither (a) and (b)

**Answer** – As per section 68, a company can conduct a buyback of only upto 25% of its total paid-up equity capital and free reserves in a financial year. Thus, X. Ltd cannot conduct the further buyback of 10%.

**Ques.87 What is the maximum term of debentures as per the Companies Act, 2013?**

- a) 10 years from date of issue
- b) **20 years from date of issue**
- c) 30 years from date of issue
- d) No particular period

**Answer** – As per section 71, a company can issue debentures upto a maximum term of 20 years (in case of certain specified industries) and upto 10 years in case of other companies.

**Ques.88 From which of the following can a company issue dividend?**

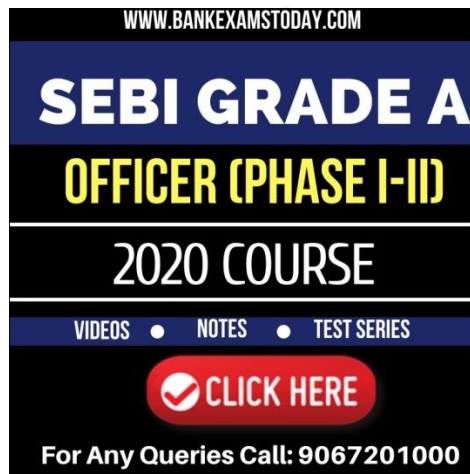
- a) Capital reserve
- b) Free reserve**
- c) Asset revaluation reserve
- d) Statutory reserve

**Answer** – As per section 123, a company can issue dividends only from its free reserves.

**Ques.89 Which authority has established the Investor Education and Protection Fund?**

- a) SEBI
- b) RBI
- c) MCA
- d) Central Government**

**Answer** – As per section 125, the Central Government has established the Investor Education and Protection Fund.



**Ques.90 Where are National Company Law Appellate Tribunal (NCLAT) present in the country today?**

- a) New Delhi
- b) Mumbai
- c) Chennai**
- d) Hyderabad
- e) Both (a) and (c)

**Answer** – Recently, the Government notified the establishment of NCLAT in Chennai. Thus, option (E) is correct.



**Ques.91** In case any person who has subscribed for securities of a company has suffered loss/damage as a consequence of acting on misleading prospectus, who among the following would be liable to pay the compensation?

- a) Promoter of the company
- b) Person who authorized the issue of prospectus
- c) Director of the company (at time of issue)
- d) All of the above

**Answer:** (D) All of the above

**Concept:** Chapter III – Section 35

**Explanation:** Section 35 provides for **Civil liability for mis-statements/omissions in Prospectus**. Each of A, B & C shall be liable to pay compensation to every such party who has sustained loss or damaged due to any such omission/inclusion of statements.

**Ques.92** A prospectus which does not include complete particulars of the price of the securities is referred to as \_\_\_\_\_.

- a) Red Herring Prospectus
- b) Deemed Prospectus
- c) Shelf Prospectus
- d) Abridged Prospectus

**Answer:** (A) Red Herring Prospectus

**Concept:** Chapter III – Section 32

**Explanation:** Section 32 specifies issue of Red-Herring Prospectus. It does not mention particular details about the price or quantum of securities included in them.

**Ques.93** A company offering securities under private placement, shall allot them within \_\_\_\_ days from the date of receipt of application money.

- a) Fifteen
- b) Thirty
- c) Sixty
- d) Ten

**Answer:** (C) Sixty

**Concept:** Chapter III – Part II – Section 42

**Explanation:** Sub-Section (6) of Section 42 clearly mentions that allotment shall be made within 60 days from date of receipt of application money. In case, company fails to do so, **it would have to repay back the application money within 15 days (from date of completion of 60 days)**

**Ques.94** A duplicate share certificate can be issued in case

- (I) It is proven to have been lost.
- (II) It has been torn & surrendered to the company
- a) Both Statement I & II are valid reasons

- b) Both Statement I & II are invalid reasons
- c) Statement I is valid but Statement II is invalid.
- d) Statement I is invalid but Statement I is valid.

**Answer:** (A) Both Statement I & II are valid cases

**Concept:** Chapter IV – Section 46

**Explanation:** A duplicate share certificate can be issued if the share has been lost or destroyed, has been defaced or mutilated or torn and is surrendered back to the company.

**Ques.95 Which of the following statement is true regarding issue of shares?**

- a) Companies cannot issue shares at discount under any circumstance
- b) Securities premium reserve can be used for writing off expenses on issue of equity shares of the company.
- c) Both A & B are true
- d) Both A & B are false.

**Answer:** (B) Securities premium reserve can be used for writing off expenses on issue of equity shares of the company.

**Concept:** Chapter IV - Section 52, 53 & 54

**Explanation:** Companies cannot issue shares at discount except in the case of sweat equity shares upon fulfilment of certain conditions (Section 53-54). Statement A is therefore false. Statement B is true. Section 52 (sub-section 2) mentions in what situations can securities premium reserve be applied.

**Ques.96 Given statements below are statements referring to debentures.**

- (I) No company can issue any debentures carrying any voting rights
  - (II) Debentures can be issued with an option to convert them into shares
- a) Both Statement I & II are true
  - b) Both Statement I & II are false
  - c) Statement I is true but Statement II is false
  - d) Statement I is false but Statement I is true.

**Answer:** (A) Both Statement I & II are true

**Concept:** Chapter IV – Section 71

**Explanation:** Debentures do not carry voting rights unlike Equity shares. Those debentures with option to convert into shares (at some specified date) are called convertible debentures. Both Statements are true, as per 71(2) of the Act.

**Ques.97 Dividend declared by a company that has not been claimed is transferred to**

- a) General Reserve
- b) Debenture Redemption Reserve
- c) Unpaid Dividend Account.
- d) Dividend Equalization Fund

**Answer:** (C) Unpaid Dividend Account

**Concept:** Chapter VIII – Section 124

**Explanation:** Section 124(1) puts forward the statement that unclaimed dividend (within 30 days of declaration + 7 days) shall be transferred to Unpaid dividend account by the company.

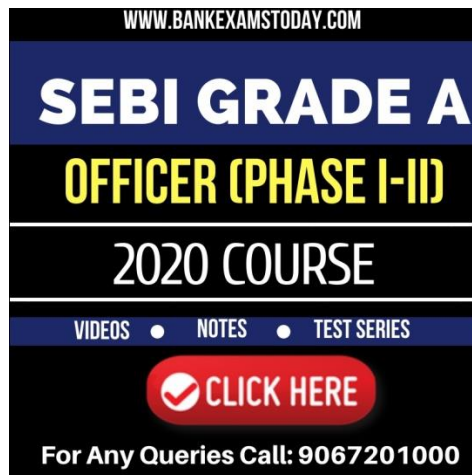
**Ques.98** In case of a Government Company, auditor is appointed by the \_\_\_\_\_

- a) Directors
- b) State Government
- c) Finance Minister of India
- d) Comptroller & Auditor General of India

**Answer:** (D) Comptroller & Auditor General of India

**Concept:** Chapter X – Section 139

**Explanation:** The Comptroller and Auditor General (CAG) of India appoints the auditor under sub-section (5) or sub-section (7) of section 139.



**Ques.99** What is the quorum required for a Board of Directors meeting according to Companies Act, 2013?

- a) One-Third of total strength of Directors
- b) Two Directors
- c) A or B – Whichever is lower
- d) A or B – Whichever is higher

**Answer:** (D) A or B – Whichever is higher

**Concept:** Chapter XII – Section 174

**Explanation:** Quoting from 174(1) – ‘The quorum for a meeting of the Board of Directors of a company shall be one-third of its total strength or two directors, whichever is higher.’

**Ques.100** Which of the following statements are true about issue of Bonus Shares?

- (I) Bonus issue increases the liquidity in the stock.
  - (II) Bonus issue can be made from Capital Redemption Reserve
- a) Both I & II

- b) Only I
- c) Only II
- d) Neither I nor II

**Answer:** (A) Both I & II

**Concept:** Issue of Bonus Shares

**Explanation:** Bonus issue can be done from free reserves. It also generally increases the liquidity of the stock in the market.

**Ques.101** If shares are offered to promoters of a company, which of these accounts is debited?

- a) Promotion Account
- b) Preliminary Expenses
- c) General Reserve
- d) Promoter's personal account

**Answer:** (B) Preliminary Expenses

**Concept:** Accounting for Share Capital

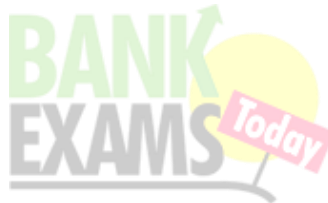
**Explanation:** The specimen entry when shares are offered to promoters is

Incorporation expense A/c... Dr.

To Promoter A/c

Preliminary Expenses A/c.... Dr.

To (Eq.) Share Capital A/c



**Ques.102** Which of these items is recorded under cashflow from operating activities?

- a) Advertisement Expenses
- b) Sales Tax paid
- c) Advance received from Customers
- d) All of these

**Answer:** (D) All of these

**Concept:** Cashflow Statement

**Explanation:** All the three transactions relate to the main operations of the business.

- **Operating activities** include cash activities **related to net income**. For example, cash generated from the sale of goods (revenue) and cash paid for merchandise (expense) are operating activities because revenues and expenses are included in net income.
- **Investing activities** include cash activities related to noncurrent assets. Noncurrent assets include
  1. Long term investments;
  2. Property, plant, and equipment; and
  3. The principal amount of loans made to other entities. **For example, cash generated from the sale of land and cash paid for an investment in another company** are included in this category.

- **Financing activities** include cash activities related to noncurrent liabilities and owners' equity. Noncurrent liabilities and owners items include
  1. The principal amount of long-term debt,
  2. Stock sales and repurchases, and
  3. Dividend payments

**Ques.103** If market price of a share X is Rs 150, book value is Rs 100 and Earning Price per Share (EPS) is Rs 75, then P/E ratio is \_\_\_\_\_:

- a) 2
- b) 1.5
- c) 1.25
- d) 0.75

**Answer:** (A) 2

**Concept:** Ratio Analysis

**Explanation:**  $P/E \text{ Ratio} = \frac{\text{Market price per share}}{\text{Earning per Share}} = \frac{150}{75} = 2$

**Ques.104** If a share issued at premium has been forfeited, Securities premium account can be debited upon forfeiture if:

- a) Premium amount has not yet been received
- b) Premium amount has been received
- c) Will not be debited under any case
- d) Will always be debited during forfeiture.

**Answer:** (A) Premium amount has not been received.

**Concept:** Accounting for Share Capital

**Explanation:** If the amount of premium has already been received, then Securities premium account cannot be debited during forfeiture. If it has not been received, it is cancelled by debiting it.

**Ques.105** Which of these items is matched under an incorrect head (Cash flow Statement)?

- a) Goodwill Purchased – Investing
- b) Bonus Shares issued – No cash flow
- c) Interim Dividends paid – Operating
- d) Issue of Preference Shares – Financing

**Answer:** (C) Interim Dividends – Operating

**Concept:** Cash Flow Statement

**Explanation:** Interim Dividend falls under Financing Activities in Cash flow statement.

**Ques.106** Given below statements relate to AS- Investments

- (I) If an investment is acquired fully/partly by issue of shares/securities, the acquisition cost shall be the par value of such securities.
- (II) Profits/Losses made on disposal of current investments is recorded in Profit & Loss statement.

- a) Both Statements I & II are true
- b) Both Statements I & II are false
- c) Statement I is true but Statement II is false
- d) Statement I is false but Statement I is true

**Answer:** (D) Statement I is false but Statement II is true

**Concept:** Accounting Standard – Investment

**Explanation:** Acquisition cost is Fair value of securities. This may or may not be necessarily equal to par/nominal value of such securities.

**Ques.107 Z forfeited 200 shares of Rs 10 each, Rs 7 called up and Rs 4 paid-up. Forfeited Shares account will be credited by Rs \_\_\_\_\_.**

- a) 2000
- b) 1400
- c) 800
- d) 600

**Answer:** (C) 800

**Concept:** Forfeiture of Shares

**Explanation:** Amount that has been received is  $200 \times 4 = \text{Rs } 800$ . Journal Entry will be:

Share Capital A/C...  
    To Forfeited Shares...  
    To Unpaid Calls...

Dr.      1400  
            800  
            600



**Ques.108 If Assets = Rs 10,00,000 and Shareholders' Fund is Rs 4,00,000, then Equity Multiplier will be \_\_\_\_\_**

- a) 2.5x
- b) 0.4x
- c) 6x
- d) 1.2x

**Answer:** (A) 2.5x

**Concept:** Ratio Analysis

**Explanation:** Equity Multiplier = Assets/Shareholder's funds = 10,00,000/4,00,000 = 2.5x

**Ques.109** Following statements relate to Elasticity of Demand of a good:

- (I) More the substitutes a good has, higher will be its price elasticity
- (II) More the durability of the product, higher will be its price elasticity.
- a) Both Statements I & II are true
- b) Both Statements I & II are false
- c) Statement I is true but Statement II is false
- d) Statement I is false but Statement II is true

**Answer:** (A) Both Statements I & II are true

**Concept:** Demand – Elasticity

**Explanation:** We can continue use a product (say, table, having a higher durability) for a longer period when price rises, showing higher elasticity. Similarly, the more substitutes a good has, the quicker will be change in preference of consumer in case price of the original good changes.

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

**Ques.110** Which of these is true in case of Perfect Competition?

- a) Price = Average Revenue
- b) Average Revenue = Marginal Revenue
- c) Price = Marginal Revenue
- d) All of these

**Answer:** (D) All of these

**Concept:** Market Structures

**Explanation:** In a perfectly competitive market,  $P = AR = MR$

**Ques.111** State the correct relationship between Average Propensity to Save & Average Propensity to Consume.

- a)  $APS + APC = 0$
- b)  $APS = 1/APC$
- c)  $APC + APS = 1$
- d)  $APC - APC = 0$

**Answer:** (C)  $APC + APS = 1$

**Concept:** Consumption Function

**Explanation:**  $APC = C/Y$  and  $APS = S/Y$  and the relationship  $Y = C + S$  holds

The sum of the average propensity to consume and the average propensity to save is always equivalent to one. A household or a nation must either spend or save all of its income.

**Ques.112** Charging different prices to different segments of consumers for the same good is called \_\_\_\_\_

- a) First Degree Price Discrimination
- b) Second Degree Price Discrimination
- c) Third Degree Price Discrimination
- d) None of these

**Answer:** (C) Third Degree Price Discrimination

**Concept:** Market Structures – Monopoly

**Explanation:** In a third-degree price discrimination, monopolist charges different prices to different groups of consumers for the very same product/good. These groups are classified on the basis on certain similar characteristics such as age, taste & preferences etc.

### **Different Types of Price Discrimination**

#### **1. First Degree Price Discrimination**

- This involves charging consumers the maximum price that they are willing to pay. There will be no consumer surplus.

#### **2. Second Degree Price Discrimination**

- This involves charging different prices depending upon the choices of consumer. For example quantity, time period, collecting coupons
- **Loyalty cards reward** frequent buyers with discounts on future products.

#### **3. Third Degree Price Discrimination- 'Group price discrimination'**

- This involves charging different prices to different groups of people For example: Student Discounts,
- Cheaper prices by the time of the day (e.g. happy hour's in pubs- usually earlier on in evening where demand is lower.

**Ques.113** If income elasticity of a good is positive, then the good is a \_\_\_\_

- a) Inferior Good
- b) Bad Good
- c) Normal Good
- d) Giffen Good

**Answer:** (C) Normal Goods

**Concept:** Income Elasticity & Demand

**Explanation:** With increase in income, the demand for Normal Goods increases.

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$$

#### **1. Income Elasticity of Demand for a Normal Good**

- A normal good has an Income Elasticity of Demand > 0. This means the demand for a normal good will increase as the consumer's income increases.

#### **2. Income Elasticity of Demand for an Inferior Good**



- A inferior good has an Income Elasticity of Demand  $> 0$ . This means the demand for a inferior good will decrease as the consumer's income decreases.

**3. Income Elasticity of Demand for a Luxury Good**

- Luxury goods usually have Income Elasticity of Demand  $> 1$ , which means they are income elastic. This implies that consumer demand is more responsive to a change in income. For example, diamonds are a luxury good that is income elastic.

**4. Relatively Inelastic Income Elasticity of Demand**

- $0 < \text{Income Elasticity of Demand} < 1$  are goods that are relatively inelastic. This means that consumer demand rises less proportionately in response to an increase in income.

**5. Income Elasticity of Demand is 0**

- Income Elasticity of Demand = 0 means that the demand for the good isn't affected by a change in income.

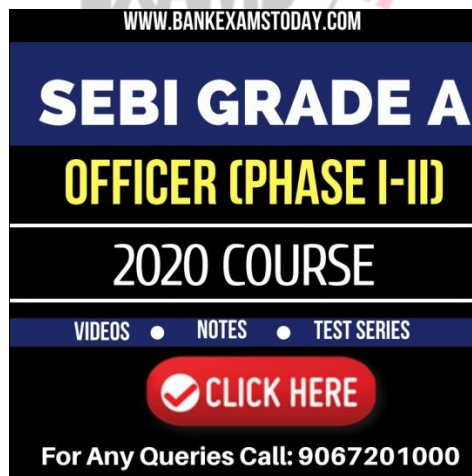
**Ques.114** A rise in reserve requirements ordered by central bank will lead to \_\_\_\_\_ of money supply.

- a) Expansion
- b) Contraction
- c) Stagnancy
- d) Re-Monetization

**Answer:** (B) Contraction

**Concept:** Monetary Policy Tools

**Explanation:** An increase in reserve requirements, reduces the banks ability to lend, contracting money supply.



**Ques.115** A perfectly horizontal supply curve has the elasticity

- a) 0
- b) Infinity
- c) 1
- d) Cannot be determined

**Answer:** (B) Infinity

**Concept:** Supply

**Explanation:** When supply curve is horizontal, it shows that even a small/negligible price change can cause infinite changes in quantity supplied.

**Ques.116** Following statements relate to Consumption & Saving Functions.

- (I) Average Propensity to Consume (APC) can be more than 1
- (II) Average Propensity to Save (APS) is always greater than 0.
- a) Both Statements I & II are true
- b) Both Statements I & II are false
- c) Statement I is true but Statement II is false
- d) Statement I is false but Statement II is true

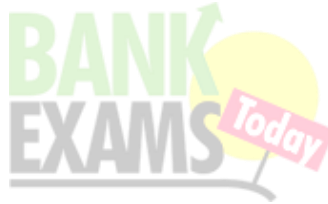
**Answer:** (C) Statement I is true but Statement II is false

**Concept:** Keynes' Consumption Function

**Explanation:** Consumption can be more than income if there is dis-savings (negative savings). So APC can be greater than 1 and APS can be negative too.

**Ques.117** A deliberate downward adjustment of the value of a country's currency by the monetary authority/Government is called \_\_\_\_\_.

- a) Depreciation
- b) Appreciation
- c) Devaluation
- d) Demonetization



**Answer:** (C) Devaluation

**Concept:** Foreign Exchange Markets

**Explanation:** Devaluation is official lowering of a country's currency value. Followed in Fixed-Exchange rate mechanism.

**Ques.118** In foreign exchange terminology, 'I' in SWIFT stands for?

- a) Interest
- b) Interbank
- c) Internet
- d) International

**Answer:** (B) Interbank

**Concept:** Foreign Exchange Markets

**Explanation:** SWIFT stands for Society for Worldwide Interbank Financial Telecommunications.

**Ques.119** The demand curve of a \_\_\_\_\_ form of market structure is usually kinked.

- a) Perfectly Competitive
- b) Monopoly
- c) Oligopoly

d) Monopolistic Competition

**Answer:** (C) Oligopoly

**Concept:** Market Structures

**Explanation:** The demand curve is kinked at point where price is 'sticky'. At prices above, the demand curve is elastic and prices below the kink, the demand curve is inelastic.

**Ques.120 Purchase of financial assets by non-Indians, that does not give them the control over the asset is known as foreign \_\_\_\_.**

- a) Direct Investment
- b) Indirect Investment
- c) Portfolio Investment
- d) Private Investment

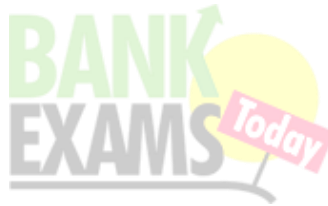
**Answer:** (C) Portfolio Investment

**Concept:** Balance of Payments

**Explanation:** FPI provides investor with stocks/securities/assets of a company held by investors in another country. It is liquid and sensitive depending on the volatility in the market.

**Ques.121 Which of these factors can cause a disequilibrium in the Balance of Payments of a Country?**

- a) Political Instability
- b) Higher Imports
- c) Cyclical business fluctuations
- d) All of these



**Answer:** (D) All of these

**Concept:** Balance of Payments

**Explanation:** Economic, Social, Political factors impact the BOP of a country. (D) is the correct choice.

**Ques.122 Which of these is not a characteristic of a Monopolistic Competition Market?**

- a) Differentiated Products
- b) Firms make supernormal profits in long run
- c) Freedom of Entry & Exit
- d) Many Firms

**Answer:** (B) Firms make supernormal profits in long run.

**Concept:** Market Structures

**Explanation:** Firms under monopolistic competitive market may earn supernormal profits in short run, but tend to earn normal profits in the long run.

**Ques.123 Which of these is also referred to as 'below the line' items in Balance of Payments?**

- a) Accommodating items
- b) Autonomous Items
- c) Invisibles Trade

d) None of these

**Answer:** (A) Accommodating Items

**Concept:** Balance of Payments

**Explanation:** Accommodating items are those that help in covering deficit/surplus of autonomous items. They are also referred to as 'below the line' items.

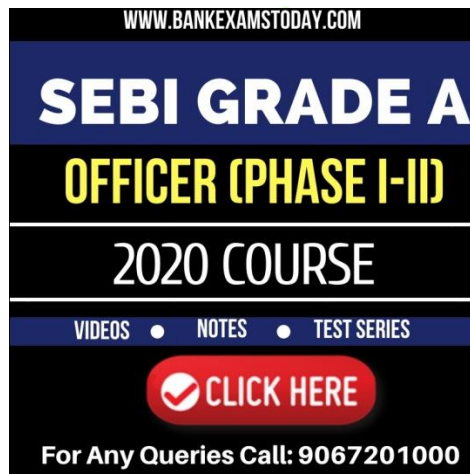
**i. Autonomous items:**

Autonomous items in the BOP mean those items, which are motivated by profit consideration. Therefore, those items relating to international economic transaction which are motivated by profit consideration are autonomous item such as import and export of goods and services and inflow and outflow of capita items.

**ii. Accommodating item:**

Accommodating items are those items which correct disequilibrium in the balance of payments. BOP accounts may reflect deficit or surplus. We know these situations are corrected by the government by injecting or withdrawing funds.

These transactions pertain to funding or withdrawal from the official reserve system using gold, special drawing rights and foreign exchange reserves.



**Ques.124** Complete the statement: \_\_\_\_\_ the value of Marginal Propensity to Consume (MPC), \_\_\_\_\_ will be the Investment Multiplier.

- a) Higher, Higher
- b) Lower, Lower
- c) Higher, Lower
- d) Lower, Higher

**Answer:** (A) Higher, Higher

**Concept:** Multiplier

**Explanation:** Multiplier =  $1/(1-MPC)$ . Hence, a higher MPC gives a smaller denominator, and hence higher multiplier.

**Ques.126** The very notion that Supply shall create its own demand was propounded in the ideology of:

- a) Keynes' Law
- b) Say's Law
- c) Walrus' Law
- d) Pareto's Law

**Answer:** (B) Says' Law

**Concept:** Classical Theory on Output & Employment

**Explanation:** Classicals believed in Say's law that stated that supply would create its own demand and the market would clear automatically.

**Ques.127** Which of these will be recorded in Current Account of Balance of Payments Statement?

- a) External assistance from Capital Market
- b) Payment for Insurance Services
- c) Commercial borrowings from abroad
- d) Foreign Direct Investment

**Answer:** (B) Payment for Insurance Services

**Concept:** Balance of Payments

**Explanation:** Capital Account records items that affect the asset/liability nature of a country. Options A, B & D are recorded in Capital account. Insurance Services is recorded under Invisibles in Current account.

**Ques.128** How many creditors/ members must agree to a scheme of compromise or arrangement to make it binding on the company?

- a) One third in value
- b) One half in value
- c) Two third in value
- d) **Three fourth in value**

**Answer:** As per Section 230(1) and (6) of the Companies Act, 2013, majority of three fourth in value of creditors/ members must agree to a scheme of compromise or arrangement to make it binding on the company.

**Ques.129** As per the Companies Act, 2013, Central Government shall make rules in consultation with which authority for merger/ amalgamation of Indian company with a foreign company?

- a) SEBI
- b) **RBI**
- c) MCA
- d) NCLT

**Answer:** As per Section 234 of the Companies Act, 2013, the Central Government may make rules, in consultation with the Reserve Bank of India, in connection with mergers and amalgamations of Indian company with a foreign company.

**Ques.130** In a company without any share capital, how many minimum members are needed to file an application of oppression and mismanagement?

- a) One third of total members
- b) One fifth of total members**
- c) Two third of total members
- d) Three fourth of total members

**Answer:** As per Section 244 of the Companies Act, 2013, in a company without any share capital, a minimum of one fifth members are needed to file an application of oppression and mismanagement.

**Ques.131** After how many years will unclaimed dividend from Unpaid Dividend Account be transferred to the Investor Education and Protection Fund?

- a) 2 years
- b) 4 years
- c) 6 years
- d) 7 years**

**Answer:** As per Section 124(5) of the Companies Act, 2013, unclaimed dividend from Unpaid Dividend Account shall be transferred to the Investor Education and Protection Fund after 7 years.

**Ques.132** For how many years must the books of accounts of a company be maintained and kept in good order?

- a) 8 years**
- b) 4 years
- c) 6 years
- d) 7 years

**Answer:** As per section 128(5), The books of account of every company relating to a period of not less than eight financial years immediately preceding a financial year must be maintained.

**Ques.133** Where a company has subsidiaries/associate companies, it shall, along with its own financial statements prepare a \_\_\_\_\_ financial statement of the company and all the subsidiaries /associate companies?

- a) Compound
- b) Compiled
- c) Conjunct
- d) Consolidated**

**Answer:** As per section 129(3), consolidated financial statement of the company and all its the subsidiaries /associate companies needs to be prepared.

**Ques.134** What is the maximum number of members of the National Financial Reporting Authority other than the Chairperson that can be appointed by the Central Government?

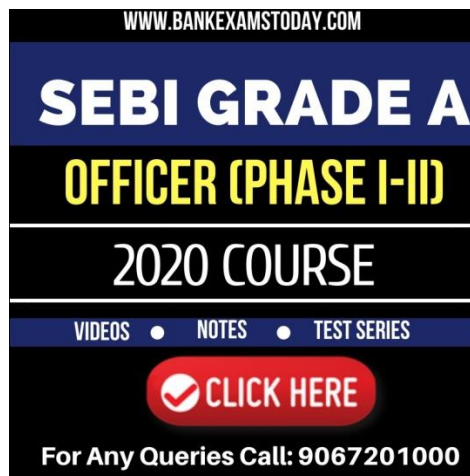
- a) 8
- b) 10
- c) 12
- d) 15

**Answer:** As per section 132(3), upto a maximum of 15 members of the National Financial Reporting Authority other than the Chairperson can be appointed.

**Ques.135 Who should appoint the first auditors of a newly incorporated company within 30 days of incorporation?**

- a) Shareholders
- b) **Board of Directors**
- c) Registrar of Companies
- d) Promoters

**Answer:** As per section 139(6), Board of Directors of a newly incorporated company shall appoint the First Auditors.



**Ques.136 A person shall be eligible for appointment as an auditor of a company only if he is a:**

- a) Company Secretary
- b) Cost Accountant
- c) **Chartered Accountant**
- d) Any of the above

**Answer:** As per section 141, only a Chartered Accountant shall be eligible for appointment as an auditor of a company.

**Ques.137 X. Ltd has appointed 15 directors and now wants to appoint 1 more director. Can it do so, if yes, in which manner?**

- a) **By a special resolution**
- b) By an ordinary resolution

- c) By a Board Resolution
- d) Any of the above

**Answer:** As per section 149, a director over prescribed limit (15 maximum directors for a company) can be appointed only by a special resolution.

**Ques.138 As per the Companies Act, which type of company must appoint a director elected by small shareholders?**

- a) **Public company**
- b) Private company
- c) Listed company
- d) All of the above

**Answer:** As per section 151, a listed company must mandatorily appoint a director elected by small shareholders.

A **small shareholder** is a person who is holding shares of nominal value amounting to a maximum of Rs 20,000 in a public company.

**Ques.139 Mr. X is a director in 10 public companies. He now wishes to be appointed as a director in a private company (Y Ltd), which is a subsidiary of another public company. Can he be appointed in Y Ltd?**

- a) Yes
- b) No
- c) Both a and b
- d) Neither a nor b



**Answer:** As per section 165, X cannot be appointed, as the maximum limit of directorships is appointment in 10 public companies and private subsidiaries of public companies will be included in calculating this limit of 10 public companies.

**Ques.140 As per the Limited Liability Partnership Act, 2008, can a body corporate be a partner in an LLP?**

- a) **Yes**
- b) No
- c) Both a and b
- d) Neither a nor b

**Answer:** As per section 5, even a body corporate can be a partner in an LLP.

**Ques.141 Every designated partner of a LLP shall obtain a \_\_\_\_\_ from the Central Government?**

- a) Director Identification Number (DIN)
- b) **Designated Partner Identification Number (DPIN)**
- c) Disclosure Number (DN)
- d) All of the above



**Answer:** As per section 7(6) of the Limited Liability Partnership Act, 2008, designated partner of an LLP shall obtain a Designated Partner Identification Number (DPIN).

**Ques.142 A person shall cease to be a partner of an LLP:**

- a) On his death or on dissolution of partnership
- b) He is declared to be of unsound mind
- c) He is declared as insolvent by a Court or has applied for the same
- d) **Any of the above**

**Answer:** As per section 24(2) of the Limited Liability Partnership Act, 2008, a person shall cease to be partner on happening of any of the above.

**Ques.143 Demand arises out of...**

- a) Want of the commodity
- b) Ability to Pay
- c) Willingness to Pay
- d) **All of these**

**Answer:** (D) All of these

**Concept:** Demand

**Explanation:** Demand arises out of the desire/want of a commodity, the ability and the willingness to pay it.

**Ques.144 If the demand of a good X decreases with increase in price of Y, then X & Y are**

- a) Complements
- b) Substitutes
- c) Inferior Goods
- d) Veblen Goods

**Answer:** (A) Complements

**Concept:** Factors affecting Demand

**Explanation:** Complementary Goods are consumed Jointly. Example: Car-Petrol. Price of one affects the demand for the other inversely.

**Ques.145 If price elasticity of demand for good X is – 0.5, and the price of X increases by 10%, the quantity demanded \_\_\_\_\_**

- a) Increases by 5%
- b) Increases by 15%
- c) Decreases by 5%
- d) **Decreases by 15%**

**Answer:** (C) Decreases by 5%

**Concept:** Elasticity of Demand

**Explanation:** Elasticity of Demand = (Proportionate Change in Qty. Demanded)/ (Proportionate Change in Price) Here, Change in Qty Demanded will be =  $-0.5 \times 10 = -5\%$

**Ques.146** In general equilibrium, theoretically, if supply increases with demand remaining unchanged, then

- a) Prices fall
- b) Prices rise
- c) Prices don't change
- d) Prices keep fluctuating

**Answer:** (A) Prices fall

**Concept:** Demand & Supply

**Explanation:** An increase in supply shifts the supply curve to right, leading to excess supply in the market. With no change in demand, prices fall to equilibrate the market.

**Ques.147** Which of these is not a characteristic feature of Perfect Competition?

- a) No buyer can influence the price of the good.
- b) No seller can influence the price of the good.
- c) Negligible Transportation Cost
- d) Differentiated products

**Answer:** (D) Differentiated products

**Concept:** Market Structure

**Explanation:** Due to high number of buyers and sellers, neither of them can influence the price. Also, 'homogeneous products' is another assumption of Perfectly Competitive market. Hence (D) is incorrect.



**Ques.148** When a monopoly (firm) charges the maximum possible price for each unit consumed, it is known as \_\_\_\_\_ price discrimination.

- a) First degree
- b) Second degree
- c) Third degree
- d) Fourth Degree

**Answer:** (A) First Degree

**Concept:** Market Structure

**Explanation:** Under First degree price discrimination, a firm/company charges the maximum price it can for the units it sells.

**Ques.149** In an oligopoly structure, when firms come together to a mutual understanding on the price and output for the market, it is known as \_\_\_\_\_ oligopoly.

- a) Imperfect
- b) Partial
- c) Collusive
- d) Competitive

**Answer:** (C) Collusive

**Concept Involved:** Demand for Money

**Explanation:** Collusion involves a mutual agreement over providing a certain output at a certain price. The decision is taken and followed jointly by the firms in the market.

**Ques.150** Under national income accounting, find the value of output (in lakhs) if it is known that Sales is 1400 lakhs & Change in stock is – 40 lakhs.

- a) 1440
- b) 1360
- c) 1400
- d) 40

**Answer:** (B) 1360

**Concept:** National Income

**Explanation:** Value of Output = Sales + Change in Output = 1400 – 40 = 1360 lakhs

**Ques.151** Complete the relation:  $GNP = GDP + \underline{\hspace{2cm}}$

- a) Depreciation
- b) Net Factor income from abroad
- c) Taxes
- d) Subsidies

**Answer:** (B) Net Factor Income from abroad

**Concept:** National Income

**Explanation:** Net factor income is the difference between the factor income earned from abroad by normal residents of a country & that earned by non-residents in the domestic territory of that country. It is added to GDP to obtain GNP.

**Ques.152** Which of these items will not be included in National Income calculation?

- a) Construction of a new house
- b) Brokerage on Sale of Securities
- c) Old age Pension
- d) Retirement Pension

**Answer:** (C) Old age Pension

**Concept:** National Income Accounting

**Explanation:** Old age pension is not included as it is a transfer payment. Retirement pension is part of Compensation given to Employees and hence is included in National Income.

**Ques.153 Which of the following is most appropriate to determine long-term solvency of a business?**

- a) Liquid Ratio
- b) Current Ratio
- c) Gross-Profit Ratio
- d) Debt-Equity Ratio

**Answer:** (d)

**Explanation:** Long-term solvency measures the economic health of the firm. Debt-Equity Ratio is a solvency Ratio. Liquid & Current Ratio are more appropriate to know short-term solvency of a firm. Gross-Profit ratio is a profitability ratio.

**Ques.154 Which of these statements is definitely true?**

- a) Increase in current assets will increase the liquid ratio.
- b) Increase in current liabilities will increase the current ratio
- c) Decrease in current liabilities will increase the current ratio
- d) Decrease in liquid assets will increase the liquid ratio

**Answer:** (c)

**Explanation:** Current Ratio = (Current Assets/Current Liabilities).

Therefore, a decrease in current liabilities makes the denominator smaller, and in turn gives a higher current ratio as current assets are now a higher multiple of the (now decreased) current liabilities

**Ques.155 If Cost of Goods sold = Rs 20,00,000**

**Closing Stock = Rs 3,00,000 &**

**Opening Stock = Rs 5,00,000**

**Then the stock turnover ratio will be \_\_\_\_\_**

- a) 4 times
- b) 2.5 times
- c) 10 times
- d) 5 times

**Answer:** (d)

**Explanation:**  $Average\ Stock = \frac{Closing\ Stock + Opening\ Stock}{2} = \frac{3,00,000 + 5,00,000}{2} = 4,00,000$

Thus, Stock Turnover Ratio =  $\frac{Cost\ of\ Goods\ sold}{Average\ Stock} = \frac{20,00,000}{4,00,000} = 5\ times$

**Ques.156 A \_\_\_\_\_ creditors turnover ratio shows \_\_\_\_\_ payment efficiency.**

- a) higher, higher
- b) lower, lower

- c) lower, higher
- d) none of the above is true

**Answer:** (c)

**Explanation:** Creditors turnover ratio shows how many times did trade payables emerge from transactions of credit purchases. A lower turnover ratio shows promptness in payment to creditors.

**Ques.157 Calculate interest coverage ratio of a firm whose Earnings before interest & tax is Rs 12,00,000 and has a long-term debt of 12% Debentures Rs 5,00,000.**

- a) 20 times
- b) 12 times
- c) 2.4 times
- d) 2.1 times

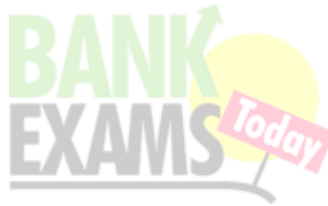
**Answer:** (a)

**Explanation:** Interest on Debentures = 12% of 5,00,000 = 60,000

Interest Coverage Ratio =  $(12,00,000 / 60,000) = 20$  times.

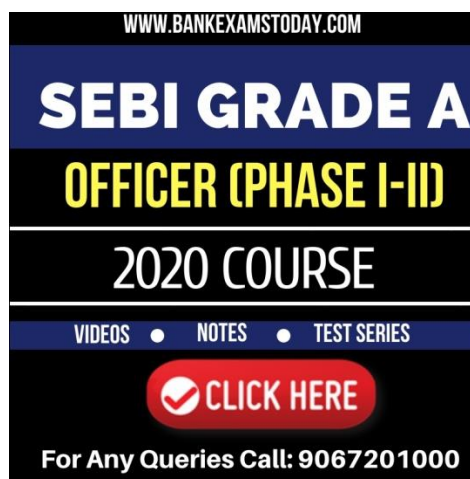
**Ques.158 Which of these is non-operating expense?**

- a) Employee benefit expense
- b) Depreciation
- c) Selling & distribution expense
- d) Interest expense



**Answer:** (d)

**Explanation:** Operating expenses arise in day-to-day operating activities of the business. Interest expense is not an operating expense. It is a financial expense.



**Ques.159 The proprietary ratio of a firm is 0.5 : 1**

**If total assets of the firm are Rs 45,00,000 then owners funds - \_\_\_\_\_**

- a) 90,00,000
- b) 15,00,000

- c) 22,50,000
- d) 60,00,000

**Answer:** (c)

**Explanation:** Proprietary Ratio = Owners Funds/Total Assets

If Total assets are 45,00,000, then Owners funds will be  $0.5 \times 45,00,000 = 22,50,000 \text{ ₹}$

**Ques.160 Which of these is false with respect to the P-E Ratio?**

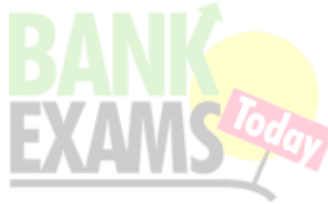
- a)  $P/E \text{ Ratio} = \frac{\text{Stock Price per share}}{\text{Earnings per Share}}$
- b) Companies with high P/E Ratio are usually considered to be growth stocks.
- c) It is used to determine whether a particular stock is overvalued or undervalued.
- d) P-E ratio is always positive.

**Answer:** (d)

**Explanation:** A firm incurring losses has negative earnings and therefore a negative P-E ratio. Hence, (d) is false.

**Ques.161 An annual dividend of Rs 20 was declared on a share whose market price is Rs 160. What is the dividend yield-ratio?**

- a) 8 %
- b) 12.5 %
- c) 0.8 %
- d) 40 %



**Answer:** (b)

**Explanation:**  $\text{Dividend Yield Ratio} = \frac{\text{Annual Dividend}}{\text{Market Price of Share}} \times 100$

Here, dividend yield-ratio =  $\frac{20}{160} \times 100 = 12.5 \%$

**Ques.162 Which of these is not a characteristic of Accounting Information?**

- a) Relevance
- b) Reliability
- c) Understandability
- d) Qualitative

**Answer:** (D) Qualitative

**Concept:** Accounting as Information System – Basics

**Explanation:** Accounting Information must be relevant, reliable, comparable & understandable. Qualitative aspects aren't reflected in accounting information

**Ques.163 Accounting Standard on Depreciation is not applicable to:**

- a) Goodwill & Intangible assets
- b) Forests & Plantations

- c) Research & Development Expenditure
- d) All of the above.

**Answer:** (D) All of the above

**Concept:** AS – 6 – Depreciation

**Explanation:** AS-6 is not applicable on forests & plantations, wasting assets, Research & Development expenditure, Goodwill & intangible assets and livestock.

**Ques.164 Assessment of Depreciation depends on the which of these factors:**

- a) Historical Cost of Asset & Residual Value of Asset
- b) Market Value of Asset & Residual Value of Asset
- c) Expected useful life of Asset
- d) Both A & C

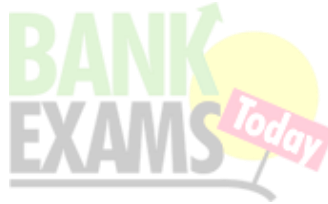
**Answer:** (D) Both A & C

**Concept:** AS-6 Depreciation

**Explanation:** Depreciation depends on three factors: Historical Cost, Residual value & expected life of the asset.

**Ques.165 \_\_\_\_\_ refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business.**

- a) Fair Value
- b) Net Realisable Value
- c) Depreciated value
- d) Future Value



**Answer:** (B) Net Realisable Value

**Concept:** AS-2 Inventories

**Explanation:** The net amount received from proceeds/sale of inventories is called its net realizable value. Fair value is the price that would be received to sell an asset or price paid to transfer a liability in a transaction in the market.

**Ques.166 Inventories must be valued at \_\_\_\_\_**

- a) Cost
- b) Market Value
- c) A or B – whichever is Higher
- d) A or B – whichever is lower

**Answer:** (D) A or B - whichever is lower.

**Concept:** AS-2 Inventories

**Explanation:** According to concept of prudence (Conservatism), Inventories are valued at cost or market value, whichever is lower.

**Ques.167** Which method of Inventory valuation assumes that items of inventory that were purchased/produced first will be sold first?

- a) LIFO
- b) FIFO
- c) AVCO
- d) None of these

**Answer:** (B) FIFO

**Concept:** AS -2 – Inventories

**Explanation:** According to FIFO (First In First Out) method, the items of inventory most recently produced/purchased will be sold first.

**Ques.168** Which of these is not classified as an investing activity while preparing cashflow statement?

- a) Cash receipts from sale of assets
- b) Cash advances made to third parties
- c) Cash repayments of amounts borrowed
- d) Cash payment to acquire fixed assets

**Answer:** (C) Cash repayments of amounts borrowed

**Concept:** Cash Flow Statement

**Explanation:** Cash repayments on amounts borrowed, issue of shares/securities is classified as a Financing activity for a business.



**Ques.169** Cash flows arising from taxes on income should be separately disclosed under \_\_\_\_\_ activities

- a) Operating
- b) Financing
- c) Investing
- d) None of these

**Answer:** (A) Operating

**Concept:** Cash Flow Statement



**Explanation:** Taxes usually arise from income mainly derived from operations. They are shown under the head – Operating activities in cash flow statement.

**Ques.170 What does EBITDA stand for?**

- a) Earnings before Investment, Tax, Depreciation & Amortization
- b) Earnings before Income, Tax, Depreciation & Amortization
- c) Earnings before Interest, Tax, Discounting & Assets
- d) Earnings before Interest, Tax, Depreciation & Amortization

**Answer:** (D) Earnings before Interest, Tax, Depreciation & Amortization

**Concept:** Ratio Analysis

**Explanation:** EBITDA measures a company's performance. (It factors out in Interest, Tax, Depreciation & Amortization)

**Ques.171 Audit Fees is shown under which head in Statement of Profit & Loss?**

- a) Administrative Expense
- b) Employee Benefit Expense
- c) Selling & Distribution Expense
- d) Financial Expense

**Answer:** (A) Administrative Expense

**Concept:** Company Final Accounts

**Explanation:** Administrative expenses are the cost related to general day-to-day administration of the business. Examples include insurance, postage, printing & stationery etc.

**Ques.172 Buyback of shares \_\_\_\_\_ the company's Equity share capital.**

- a) Increases
- b) Reduces
- c) Multiplies
- d) Does not affect

**Answer:** (B) Reduces

**Concept:** Buyback of Shares

**Explanation:** In case of buyback, the company buys back its own share. This reduces the company's share capital (ownership) to the extent of share-value repurchased by them.

**Ques.173 Which type of Preference Shares carry a right to receive a fixed amount of dividend?**

- a) Cumulative Preference Shares
- b) Redeemable Preference Shares
- c) Participating Preference Shares
- d) Non-Cumulative Preference Shares

**Answer:** (D) Non-Cumulative Preference Shares

**Concept:** Accounting for Share Capital

**Explanation:** Non-cumulative preference shareholders do not receive arrears on dividends. They carry a right to received dividend at a fixed rate. In case dividend is not declared for the year by the company, this right expires.

**Ques.174 Table F of the Companies Act, 2013, interest rate of \_\_\_\_\_% p.a. is to be paid on money received as Calls-in-advance.**

- a) 9%
- b) 10%
- c) 12%
- d) 6%

**Answer:** (C) 12%

**Concept:** Accounting for Share Capital

**Explanation:** When Shareholders pay a part or whole of the amount on shares, which is yet to called up, it is called Calls-in-advance. It attracts interest at 12% p.a. if Table F is followed.

**Ques.175 What should be the minimum time gap between two buy-back transactions?**

- a) 6 months
- b) 1 year
- c) 2 year
- d) 3 months

**Answer:** (B) 1 year

**Concept:** Buy-back of Shares

**Explanation:** Section 77(A) of Companies Act specifies a 365 day cooling period between two successive buy-backs approved by the board.

**Ques.176 The offer period to the existing shareholders in case of Rights Issue is minimum of \_\_\_\_ days.**

- a) 15
- b) 30
- c) 45
- d) 60

**Answer:** (A) 15

**Concept:** Rights Issue of Shares

**Explanation:** As per Section 62(1) of Companies Act, as quoted under 'the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined'

**Ques.177 The remaining portion of authorized capital which is not issued in cash/consideration, is termed as \_\_\_\_\_.**

- a) Subscribed Capital

- b) Un-Issued Capital
- c) Called up Capital
- d) Paid up Capital

**Answer:** (B) Un-Issued Capital

**Concept:** Accounting for Share Capital

**Explanation:** Called-up Capital is the fraction of the price of share demanded by the company from shareholders. Paid-Up Capital is the amount actually paid by shareholders. The part that is not issued is called the Un-Issued Capital.

**Ques.178** If Gross Profit = Rs 1,40,000;

Gross Sales = Rs 4,20,000

Sales Return = Rs 70,000

Then Gross Profit Ratio will be \_\_\_\_\_

- a) 25%
- b) 35%
- c) 33.33%
- d) 40%

**Answer:** (D) 40%

**Concept:** Ratio Analysis

**Explanation:** Gross Profit Ratio =  $(\text{Gross Profit} / \text{Net Sales}) \times 100 = (1,40,000 / 3,50,000) \times 100 = 40\%$   
Net Sales = Sales – Sales Return = 4,20,000 – 70,000 = 3,50,000



**Ques.179** From the following Mentioned Accounting Standards, Which is the correct Accounting Standard for the Accounting of Depreciation?

- a) AS-3
- b) AS-5
- c) AS-6
- d) AS-8
- e) None of the Above

**Answer:** (C)

**Explanation:** Indian accounting Standard 6 Describes the Accounting of Depreciation on Fixed Assets.

**Ques.180 As Per Accounting Standard 6 (Depreciation Accounting) Depreciable Assets are:-**

- a) Having Limited Life
- b) Which Are used for More than One year
- c) Which are held for the production of Goods and services, Administration and Rental use
- d) Both B & C
- e) All A, B & C

**Answer: (E)**

**Explanation:** As per Accounting Standard -6 Meaning of Depreciable asset is those Assets which have Limited Life, Which are used for More than One year and which are held for the production of Goods and services, Administration and Rental use.

**Ques.181 Depreciation is the Process of:-**

- a) Valuation
- b) Appropriation
- c) Depletion
- d) Segregation
- e) Allocation

**Answer: (E)**

**Explanation:** As per AS- 6 Depreciation can be defined as Measure of Wearing out, Consumption or other loss of value of a Depreciable asset arising from use, Passage of time and Market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset.

**Ques.182 As Per AS- 6 Below mentioned all the fixed Assets are depreciable Assets Except**

- a) Furniture
- b) Car Given on Rent
- c) Machinery
- d) Land
- e) Building

**Answer: (D)**

**Explanation:** As per Accounting Standard -6 Meaning of Depreciable asset is those Assets which have Limited Life, Which are used for More than One year and which are held for the production of Goods and services, Administration and Rental use. All the fixed Assets except land has unlimited Life that is why land is not depreciable Asset.

**Ques.183 In Financial year 2018-2019 method for charging depreciation was changed from SLM (Straight Line Method) to WDV (Written Down Value) in Such a Case**

- a) No need to Disclose Change in method in Accounting Policy

- b) Such a Change in should be treated as Change in Accounting Policy and should be disclosed
- c) Depreciation to be recalculated from the date of asset coming in use
- d) Depreciation to be recalculated from the date of Change in method of depreciation
- e) Both B & C

**Answer:** (E)

**Explanation:** As Per AS -6 if Change in Method is required by statute or for compliance with the accounting standard or if it considered that change in method result in a more appropriate preparation and presentation of the financial Statements of the firm.

When such change is done then depreciation is recalculated in accordance with the new method from the date asset coming into use. And such change is considered as change in Accounting Policy and should be disclosed.

**Ques.184 Which of following Factors shall be considered during the useful life of a Depreciable Asset?**

- a) Expected Physical Wear and Tear
- b) Obsolescence
- c) Legal or other limits on the use of the assets
- d) Both A & B
- e) All A,B,C

**Answer:** (E)

**Explanation:** Due to Normal wear and tear during the use of assets the assets are deteriorated Physically which results in reduction of the value of asset . Due to change in technology there may be permanent decrease in the market value of asset which will obsolete the Asset. Obsolescence arises from outdated and replacing the existing asset with the new and improved model of the asset. Certain Assets such as patents, trademarks etc have fixed life Span and legal time the value of assets decreases with Span of time whether used or not. So above mentioned all the factors effects the useful life of the asset.

**Ques.185 As per AS -6 the main objective of Providing Depreciation is to:-**

- a) Know the Actual Cash Profit
- b) Calculate the true net Profit
- c) Creating fund for replacement of the fixed asset
- d) To reduce the tax burden
- e) To protect the interest of creditors

**Answer:** (B)

**Explanation:** As per AS- 6 Depreciation can be defined as Measure of Wearing out, Consumption or other loss of value of a Depreciable asset arising from use, Passage of time and Market changes. The Main objective of providing depreciation is to ascertain the true Profits of the company.

Other options Calculate the true net Profit, Creating fund for replacement of the fixed asset , To reduce the tax burden are incidental to the main objectives. And depreciation is nothing to do with creditors.

**Ques.186 Accounting Standard – 2 Deals with**

- a) Contingencies and events occurred after the balance sheet date

- b) Depreciation Accounting
- c) Valuation of inventories
- d) Disclosure of Accounting Policies
- e) Foreign Exchange Transactions

**Answer:** (C)

**Explanation:** AS-2 deals with Valuation of Inventories.

**Ques.187 As Per Accounting Standard – 2 finished goods will be considered as part of tangible assets if**

- a) It is held for sale in the ordinary course of the business
- b) It is for personal use
- c) It is for Construction contracts
- d) Both A & B
- e) Both A & C

**Answer:** (A)

**Explanation:** As per AS-2 Inventories means tangible assets held

1. for sale in the ordinary course of business means finished goods
2. in the Process of production for such sale means Work in progress (WIP)
3. For consumption in the Production of goods or services for sale including of maintenance supplies and consumable other than machinery parts which means Raw Material

Hence Option A is correct



**Ques.188 Which Accounting Standard will be applied on the Inventories of Construction Contracts**

- a) AS-2 of the Valuation of Inventories
- b) AS- 7 of Construction Contracts
- c) AS-10 Accounting for Fixed Assets
- d) Both A & B
- e) All A,B & C

**Answer:** (B)

**Explanation:** AS- 7 Construction Contracts. Inventories of Construction Contracts will not come under the AS-2 because the inventory is used for the purpose of Construction of Building or any other plant it is not going to be used as raw material in the production of finished goods which are further to be sold out.

**Ques.189 In year 2016 Accounting Standard – 6 (Accounting for Depreciation) was withdrawn by ICAI And its Provisions were included in which of the following standard?**

- a) AS-3
- b) AS-16
- c) AS-10
- d) AS-8
- e) None of the Above

**Answer:** (C)

**Explanation:** Accounting standard – 10 covers Property, Plant, Equipment + (AS-6 + Schedule ii covers Depreciation Provisions).

**Ques.190 A Firm Produces Pens and it requires material which comes in plastic containers. Firm is left with 1,00,000 Plastic Containers during the production process every month. Firm sold these containers at Rs.2 Per container. So the worth of containers held by the Firm is Rs. 200000/- Now the Firm will show this transaction in the category of:-**

- a) Fixed Assets
- b) Inventory
- c) Current Assets other than inventory
- d) Stock in trade
- e) Both B & D

**Answer:** (C)

**Explanation:** This transaction will be treated in the category of Current assets other than inventory. Because Firm's Main work is production of Pens and not the trading of Plastic containers. As **per As-2 Inventories means tangible assets held**

1. for sale in the ordinary course of business means finished goods
2. in the Process of production for such sale means Work in progress (WIP)
3. For consumption in the Production of goods or services for sale including of maintenance supplies and consumable other than machinery parts which means Raw Material

**Ques.191 As Per AS-2 inventory will be valued at :-**

- a) Historical Cost
- b) Net realizable Value
- c) Historical cost or Net realizable Value whichever is lower
- d) Historical cost or Net realizable Value whichever is higher
- e) Replacement Cost

**Answer:** (C)

**Explanation:** As Per AS-2 inventory will be valued at Historical cost or Net realizable Value whichever is lower.

**Ques.192 Accounting Standard – 9 Deals with:-**

- a) Contingencies and events occurred after the balance sheet date
- b) Depreciation Accounting
- c) Valuation of inventories
- d) Revenue Recognition
- e) Foreign Exchange Transactions

**Answer:** (D)

**Explanation:** Accounting Standard – 9 Deals with Revenue Recognition.

**Ques.193 The Accounting Standard of revenue recognition deals in :-**

- a) Revenue obtained from the execution of construction contracts
- b) Revenue from Governments Grants
- c) Revenue from Consignment and Hire purchase Contracts
- d) Revenue generated from Interests, Dividends and Royalties obtained from using resources of the Firm
- e) Revenue generated by the insurance companies

**Answer:** (D)

**Explanation:** AS-9 deals with revenue recognition of interest, Dividends and royalties revenue which is generated from using resources of the Firm.

**Ques.194 As per the delivery method Revenue is recognized when:-**

- a) The title of goods is transferred
- b) Order is received for the goods
- c) Payment of goods is made
- d) When goods are delivered
- e) When invoice for the goods is raised

**Answer:** (D)

**Explanation:** Revenue should be recognized only when the goods actually delivered and services are actually rendered as per the delivery method.

**Ques.195 Delivery Method of revenue Recognition is not applicable on :-**

- a) Goods sent on approval basis
- b) Hire Purchase
- c) Consignment
- d) Joint Venture
- e) Both C & A

**Answer:** (E)



**Explanation:** In consignment contracts consignor can return the unsold goods any time. And in goods sent on approval is not a actual sale. Hence both the options are not applicable in Delivery Method of revenue recognition.

**Ques.196** XY Ltd purchased Machinery Worth Rs. 1500000/- .Further XY Ltd. Spent Rs 100000/- on Transportation and Rs.50000/- on Labor and testing during the installation. What will be Cost Price of the Machinery?

- a) Rs.1650000/-
- b) Rs.1600000/-
- c) Rs.1500000/-
- d) Rs.1550000/-
- e) Rs. 1350000/-

**Answer:** (A)

**Explanation:** As Per Accounting Standard -10 The Cost incurred on acquiring the Fixed Assets not only includes the purchase of asset but also the incidental charges which help the asset to perform the specified task for which it has been brought.

In case of Machinery the cost price will be Purchase Price + All costs of installation like Transportation, Labor, Testing Expenditure etc.

**Ques.197 Accounting Standard – 11 Deals with:-**

- a) Contingencies and events occurred after the balance sheet date
- b) Depreciation Accounting
- c) Valuation of inventories
- d) Revenue Recognition
- e) The Effects of Changes in Foreign Exchange Rates Transactions

**Answer:** (E)

**Explanation:** Accounting Standard – 11 Deals with the Effects of Changes in Foreign Exchange Rates Transaction.



**Ques.198 The objective of AS-11 (in Foreign Exchange Rates Transactions) is/are :-**

- a) To include Foreign Currency Transactions in Financial Statements of an entity of reporting country
- b) To include Foreign Operations Transactions in Financial Statements of an entity of reporting country
- c) To Translate or Convert Financial Statements into Presentation currency
- d) To report Which Exchange rate to use and to report changes in exchange rate in financial statements
- e) All the Above

**Answer: (E)**

**Explanation:** The Objectives of As – 11 are:-

- A. To include Foreign Currency Transactions in Financial Statements of an entity of reporting country
- B. To include Foreign Operations Transactions in Financial Statements of an entity of reporting country
- C. To Translate or Convert Financial Statements into Presentation currency
- D. To report Which Exchange rate to use and to report changes in exchange rate in financial statements

\*\*\*Presentation currency means that currency in which Financial Statements are prepared

**Ques.199 Make a Correct Match:-**

- a) 1-2,2-3,3-4,4-1
- b) 1-4,2-3,3-2,4-1
- c) 1-4,2-1,3-4,4-2
- d) 1-3,2-1,3-4,4-2



1. Closing Rate	1.is the price that would be received to sell a asset or paid to transfer a liability in a transaction between participants at the measurement date
2. Exchange Rate	2.Exchange rate at the end of reporting period
3. Exchange Difference	3. Ratio of exchange for two currencies
4. Fair Value	4.Difference resulting from converting of given number of units of one currency into another currency at different exchange rate

**Answer: (A)**

**Explanation:** Correct Pair

1. Closing Rate	2.Exchange rate at the end of reporting period
2. Exchange Rate	3. Ratio of exchange for two currencies
3. Exchange Difference	4.Difference resulting from converting of given number of units of one currency into another currency at different exchange rate
4. Fair Value	1.is the price that would be received to sell a asset or paid to transfer a liability in a transaction between participants at the measurement date

**Ques.200 Make a Correct Match:-**

- a) 1-2,2-3,3-4,4-1

- b) 1-4,2-3,3-2,4-1
- c) 1-4,2-1,3-4,4-2
- d) 1-3,2-1,3-4,4-2

**Answer:** (B)

**Explanation:** Correct pair

1. Foreign Operation	4. An Entity which is Associate, Subsidiary, Joint arrangement or Branch of the reporting Entity and the activities of which are conducted and based in a currency or country other than of the reporting entity's country or currency.
2. Functional Currency	3.Currency of Primary economic environment where the reporting entity operates
3. Presentation currency	2. currency in which financial statements are presented
4. Spot Exchange Rate	1.current Market exchange rate for the immediate delivery to buy another currency

**Ques.201 Accounting Standard -13 Deals with:-**

- a) Accounting of Fixed Assets
- b) Investment Accounting
- c) Valuation of inventories
- d) Revenue Recognition
- e) Foreign Exchange Transactions

**Answer:** (B)

**Explanation:** Accounting Standard -13 Deals with investment Accounting.

**Ques.202 Interest Accrued on investments appears in the Balance sheet of a firm under the category of**

- a) Current Assets
- b) Investments
- c) Current Liabilities
- d) Reserve and Surplus
- e) Loans and Advances

**Answer:** (A)

**Explanation:** Interest accrued on Investments will appear in current Assets in the Balance sheet of a Firm.

**Ques.203 As per AS – 13 Accounting for investment does not deal with:-**

- a) Interest, Dividends and rental earned on investments which are covered in Accounting Standard - 9 Revenue Recognition
- b) Finance Leases
- c) Investments in Life insurance plans and Life insurance Enterprises
- d) Mutual Funds and venture capital funds

e) All of the Above

**Answer:** (E)

**Explanation:** The Standard Does not deal With:-

A. Interest, Dividends and rental earned on investments which are covered in Accounting Standard -9 Revenue Recognition, B. Finance Leases, C. Investments in Life insurance plans and Life insurance Enterprises ,D. Mutual Funds and venture capital funds.

**Ques.204 Shares, Debentures and other securities held in normal course of business will appears in the balance sheet under the category**

- a) Stock in trade
- b) Investments
- c) Current Liabilities
- d) Reserve and Surplus
- e) Loans and Advances

**Answer:** (A)

**Explanation:** Shares, Debentures and other securities held in normal course of business will appears in the balance sheet under the category of Stock in trade as current asset.



**Ques.205 On 28th oct'14 SEBI replaced its Section 11 of SEBI ACT, 1992 with SEBI ( Share Based Employee Benefits) Regulations 2014 and it applies on which of these following mentioned schemes?:**

- a) Employee Stock option Schemes
- b) Employee Stock Purchase Schemes
- c) Stock Appreciation Rights Schemes
- d) General Employees benefits schemes and retirement Benefits Schemes
- e) All the above

**Answer:** (E)

**Explanation:** In 28th oct'14 SEBI replaced its Section 11 of SEBI ACT'1992 with SEBI ( Share Based Employee Benefits) Regulations 2014 which applies on all the following mentioned schemes:-

A. Employee Stock option Schemes

- B. Employee Stock Purchase Schemes
- C. Stock Appreciation Rights Schemes
- D. General Employees benefits schemes and retirement Benefits Schemes

**Ques.206 Which Section of Companies Act,2013 Deals with provision for issue of employees stock option schemes subject to Compliance with Rules and Regulations of SEBI :-**

- a) Section 65
- b) Section 60
- c) Section 72
- d) Section 62
- e) Section 52

**Answer: (D)**

**Explanation:** Section 62 the deals with provision for issue of employee's stock option schemes subject to Compliance with Rules and Regulations of SEBI of Companies Act'2013.

**Ques.207 The Reason for which companies grant its employees, The Employees stock Option Schemes is/are:-**

- a) Because Start- up Companies cannot afford to pay huge salaries to its employees
- b) To retain its Employees and award them for being associated with the company
- c) To use it as an obligation granted to employee to subscribe or purchase the shares of the company
- d) To use it as a tool for aligning the interest of Employee with the interest of business
- e) All A, B & D

**Answer: (E)**

**Explanation:** All the options except option C are correct because Employees stock Option Schemes are not obligation these are rights granted to employees.

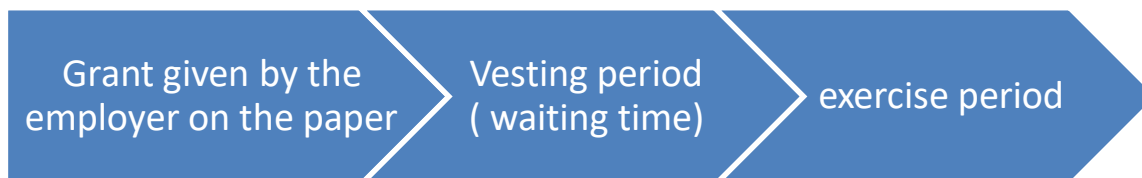
**Ques.208 Make a Correct Match:-**

- a) 1-2,2-3,3-4,4-1
- b) 1-4,2-3,3-2,4-1
- c) 1-2,2-4,3-1,4-3
- d) 1-3,2-1,3-4,4-2

1. Grant	1. time period after vesting after which employee should use his right to apply for shares against the option vested to him in pursuance of Employee Stock options Scheme
2. Vesting Period	2. Issue of option to the Employees under ESOS
3. Exercise Period	3. A right but not an obligation granted to the employee for a specified period of time in the engagement to Employee stock option Scheme to purchase or subscribe to shares of the company at a predetermined price.
4. option	4. time Period between grant date and the date on which all the specified vesting conditions of an employee take place.

**Answer:** (C)**Explanation:**

1. Grant	1.Issue of option to the Employees under ESOS
2. Vesting Period	2.time Period between grant date and the date on which all the specified vesting conditions of an employee take place
3. Exercise Period	3. time period after vesting after which employee should use his right to apply for shares against the option vested to him in pursuance of Employee Stock options Scheme
4. option	4.A right but not a obligation granted to the employee for a specified period of time in the engagement to Employee stock option Scheme to purchase or subscribe to shares of the company at a predetermined price.



**Ques.209 Under Companies act 2013 what shall be the Minimum years gap between Grant of options and vesting of option?**

- a) 3 years
- b) 4 years
- c) 5 years
- d) 1 year
- e) 6 years

**Answer:** (D)

**Explanation:** Under Companies act 2013 one year gap between Grant of options and vesting of option is imperative.

**Ques.210 As per accounting, employees share based Payment plans are classified as:**

- a) Equity settled
- b) Liquidity Settled
- c) Employee Share based payment plans with cash alternatives
- d) Both A & B
- e) All A, B, C

**Answer:** (E)

**Explanation:** All A, B, C options are correct

A. Equity settled – Under this plan Employees receives shares

B. Liquidity Settled – Under this plan Employees receives cash based on the value of the company's shares

C. Employee Share based payment plans with cash alternatives- under this plan either the company or the employee has a choice whether to receive shares or cash

**Ques.211 Who among the following are eligible for Employee stock option schemes:-**

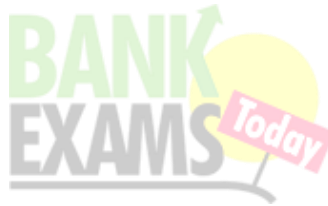
- a) Permanent Employees
- b) Directors and Officers
- c) Independent directors & Promoters
- d) A & B
- e) B & C

**Answer:** (D)

**Explanation:** Permanent Employees, Directors and Officers are eligible for Employee stock option schemes.

**Ques.212 Mr. X was granted ESOPs at an exercise Price of Rs. 1000 per option. The Fair Market value on the date of vesting is Rs. 4500/- while the Fair Market value at the time of Exercise is Rs. 5000/- . Calculate the value of ESOPs.**

- a) Rs. 5500/-
- b) Rs. 6000/-
- c) Rs. 4000/-
- d) Rs. 5000/-
- e) Rs. 4500/-



**Answer:** (C)

**Explanation:** ESOPS are calculated by:- Fair Market Value of shares on the date of exercise- exercise price actually paid by the price.  $\text{Rs } 5000 - \text{Rs } 1000 = \text{Rs. } 4000/-$



**Ques.213 A company shall Maintain a Register of Employee Stock Options in:-**

- a) Form SH-6

- b) Form SH-12
- c) Form SH-8
- d) Form SH-7
- e) Form SH-5

**Answer:** (A)

**Explanation:** A company shall Maintain a Register of Employee Stock Options in Form SH-6.

**Ques.214 Whose approval is compulsory before offering any employees stock option scheme to the employees of the Private Company ( unlisted ) By passing a ordinary resolution:-**

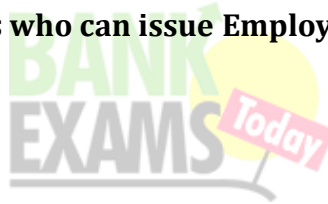
- a) Directors
- b) Auditors
- c) Promoters
- d) Shareholders
- e) Employees

**Answer:** (D)

**Explanation:** Shareholders approval is compulsory before offering any employees stock option scheme to the employees of the Private Company by passing a ordinary resolution, as per notification dated 05.06.2015.

**Ques.215 Out of the following options who can issue Employee stock options schemes?**

- a) Unlisted Companies
- b) Unlisted Public companies
- c) Listed companies act 2013
- d) Both A & B
- e) All A, B, C



**Answer:** (E)

**Explanation:**

A. Unlisted Companies- Pvt Companies by passing ordinary resolution

B. Unlisted Public companies by way of Special Resolution

C. Listed companies as per SEBI Esop guidelines along with Companies

**Ques.216 Companies Buys its own shares so as to:**

- a) To improve the value of undervalued stock
- b) To Consolidate the Capital
- c) To improve the company's holding in total capital
- d) Only B & C
- e) All A, B & C

**Answer:** (E)

**Explanation:** Company can buy its shares to improve the value of undervalued stock, Consolidate the Capital, improve the company's holding in total capital.



**Ques.217 A Company can buy its own shares and other specified securities out of:-**

- a) Its Free Reserves
- b) Its Security Premium Account
- c) The Proceeds of the fresh issue of any shares or other specified securities
- d) Both A & B
- e) All A, B, C

**Answer: (E)**

**Explanation:** A company can buy its own shares and other specified securities out of Free Reserves, Security Premium, Proceeds of the fresh issue of any shares or other specified securities **However it can't be made out of the proceeds of the earlier issue of shares or same kind of other specified resolution.**

**Ques.218 What is the period in which buy back of Shares shall be completed from the date of Passing of the special resolution by the board:-**

- a) 6 Months
- b) 1 Year
- c) 2 Years
- d) 3 years
- e) 5 Years

**Answer: (B)**

**Explanation:** 1 Year is the period in which buy back of Shares shall be completed from the date of Passing of the special resolution by the board.

**Ques.219 As per section 68 of Companies Act 2013 what is the percentage of Maximum number of shares that can be bought back in a financial year of paid up capital and free reserves :-**

- a) 30%
- b) 10%
- c) 25%
- d) 5%
- e) 35%

**Answer: (C)**

**Explanation:** As per section 68 of Company Act 2013, 25% is the percentage of Maximum number of shares that can be brought back in a financial year of paid up capital and free reserves.

**Ques.220 Post buy back the company's debt equity ratio cannot exceed by:-**

- a) 2:1
- b) 2:4
- c) 3:2
- d) 3:1
- e) 1:1

**Answer: (A)**

**Explanation:** Post buy-back the company's debt equity ratio cannot exceed by 2:1.

**Ques.221 Under section 68 of Companies Act 2013, the company can Purchase its own shares or other specified securities unless:-**

- a) Authorized by Articles of Association
- b) The debt owed by the company is not more than twice the paid up capital and its free reserves after such buy back.
- c) Shares to be bought are partly or Fully paid up.
- d) Passes by a special resolution at a general meeting
- e) All A, B & D

**Answer:** (E)

**Explanation:** All options except option C are correct. As per conditions of Section 68 of Companies Act 2013, Partly Paid up shares cannot be bought back by the company.



**Ques.222 When a company buy back shares from Free reserves a sum equal to the nominal value of the shares bought shall be transferred to :-**

- a) Capital redemption Reserve
- b) Revenue Redemption Reserve
- c) Suspense Account
- d) Profit and Loss Account
- e) Premium of Redemption account

**Answer:** (A)

**Explanation:** When a company buy back shares from Free reserves a sum equal to the nominal value of the shares bought shall be transferred to Capital redemption Reserve.

**Ques.223 Which of the following mentioned circumstances are correct when companies should not buy-back its securities or other specified securities, directly or indirectly:-**

- a) Through any subsidiary including its own subsidiary
- b) Through investment or group of investment companies

- c) When company has defaulted in payment of Deposits or interest payable, filling of annual returns, declaration of dividend & financial statements
- d) Both A & B
- e) All A, B, C

**Answer:** (E)

**Explanation:** As Per Section 70 of companies act, 2013 companies should not buy-back its securities or other specified securities, directly or indirectly-

1. Through any subsidiary including its own subsidiary

2 Through investment or group of investment companies

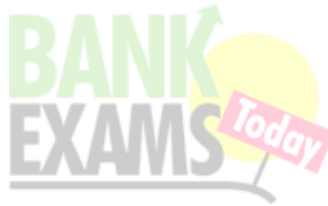
3 When company has defaulted in payment of Deposits or interest payable thereon, or in redemption of debentures or preference shares or repayment of any term loan.

However this prohibition is lifted if the default has been remedied and period of 3 years has elapsed.

4. Defaulted in filling of annual returns, declaration of dividend & financial statements.

**Ques.224 Out of the following options what are the modes of buy back?**

- a) From the existing Shareholders or other specified holders on a proportionate basis
- b) From the open Markets
- c) From odd lot holders
- d) A & C
- e) All A, B & C



**Answer:** (E)

**Explanation:** Company can buy-back its shares and other securities by any of the following method

1. From the existing Shareholders or other specified holders on a proportionate basis

2. From the open Markets

3. From odd lot holders