

QUESTION BANK

B.Com(H)

SEMESTER 1V

FOR PRIVATE CIRCULATION

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QUESTION BANK

FINANCIAL MANAGEMENT

BCOM(H) - 202

UNIT - I

I MULTIPLE CHOICE QUESTIONS:

1. _____ is concerned with the maximization of a firm's stock price.

- A. Shareholder wealth maximization
- B. Profit maximization
- C. Stakeholder welfare maximization
- D. EPS maximization

ANSWER: A

2. Future value interest factor takes _____.

- A. Compounding rate
- B. Discounting rate
- C. Inflation rate
- D. Deflation rate

ANSWER: A

3. Present value takes _____.

- A. Discounting rate
- B. Compounding rate
- C. Inflation rate
- D. Deflation rate

ANSWER: A

4 The only viable goal of financial management is:

- A. profit maximization
- B. wealth maximization
- C. assets maximization
- D. Sales maximization

ANSWER: B

5 The basic objective of financial management is:

- A. maximization of profits
- B. maximization of shareholders' wealth
- C. ensuring financial discipline in the organization
- D. none of the above

ANSWER: B

- 6 Finance function involves:
- A. Procurement of finance only
 - B. Expenditure of funds only
 - C. Safe custody of funds only
 - D. Procurement and effective utilization of funds

ANSWER: D

- 7 Financial management is mainly concerned with
- A. Arrangement of funds
 - B. All aspects of acquiring and utilizing means of financial resources for firm's activities
 - C. Efficient management of every business
 - D. None of the above

ANSWER: B

- 8 The goal of wealth maximization takes into consideration:
- A. Risk related to uncertainty of returns
 - B. Timing of expected returns
 - C. Amount of returns expected
 - D. All of the above

ANSWER: D

- 9 According to the accounting profession, which of the following would be considered a cash-flow item from a "financing" activity?
- A. A cash outflow to the government for taxes
 - B. A cash outflow to repurchase the firm's own common stock
 - C. A cash outflow to lenders as interest
 - D. A cash outflow to purchase bonds issued by another company

ANSWER: B

- 10 Which of the following statements is correct regarding profit maximization as the primary goal of the firm?
- A. Profit maximization will not lead to increasing short-term profits at the expense of lowering expected future profits
 - B. Profit maximization is concerned more with maximizing net income than the stock price

ANSWER: B

- 11 Which of the following is not a cash outflow for the firm?
- A. Depreciation
 - B. Dividends
 - C. Interest payments
 - D. Taxes

ANSWER: A

12. The _____ decision involves determining the appropriate make-up of the right-hand side of the balance sheet.
- A. asset management
 - B. financing
 - C. investment
 - D. capital budgeting

ANSWER: B

13. To whom does the Treasurer most likely report?
- A. Chief Financial Officer.
 - B. Vice President of Operations.
 - C. Chief Executive Officer.
 - D. Board of Directors.

ANSWER: A

14. The _____ decision involves a determination of the total amount of assets needed, the composition of the assets, and whether any assets need to be reduced, eliminated, or replaced.
- A. asset management
 - B. financing
 - C. investment
 - D. accounting

ANSWER: C

15. How are earnings per share calculated?
- A. Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.
 - B. Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding.
 - C. Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding.
 - D. Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value.

ANSWER: B

16. The goal of wealth maximization takes into consideration:
- A. Risk related to uncertainty of returns
 - B. Timing of expected returns
 - C. Amount of returns expected
 - D. All of the above

ANSWER: D

17. Which of the following statements is not correct regarding earnings per share (EPS) maximization as the primary goal of the firm?
- A. EPS maximization ignores the firm's risk level.
 - B. EPS maximization does not specify the timing or duration of expected EPS.
 - C. EPS maximization naturally requires all earnings to be retained.
 - D. EPS maximization is concerned with maximizing net income.

ANSWER: D

18. If the nominal rate of interest is 10% pa and frequency of compounding is 4 i.e. quarterly compounding, the effective rate of interest will be:
- A. 10.25% pa
 - B. 10.38% pa
 - C. 10% pa
 - D. None of them

ANSWER: B

19. Which of the following is *not* normally a responsibility of the controller of the modern corporation?
- A. Financial reporting to the IRS
 - B. Asset management.

ANSWER: B

20. Which of the following statements is *not* correct regarding earnings per share (EPS) maximization as the primary goal of the firm?
- A. EPS maximization is concerned with maximizing net income
 - B. EPS maximization does not specify the timing or duration of expected EPS.

ANSWER: A

21. Present Value can be calculated with the help of formula:
- A. $(1+r)^n$
 - B. $1/(1+r)^n$
 - C. $(1+r)^n / 1$
 - D. None of the above

ANSWER: B

22. To increase a given future value, the discount rate should be adjusted _____.
- A. Upward
 - B. Downward

ANSWER: A

23. Time value of money explains that:
- A. A unit of money received today is worth more than a unit received in future
 - B. A unit of money received today is worth less than a unit received in future
 - C. A unit of money received today and at some other time in future is equal
 - D. None of them

ANSWER: A

24. Discounting technique is used to find out:
- A. Terminal Value
 - B. Compounded Value
 - C. Present Value
 - D. Future Value

ANSWER: C

25. Finance function involves:
- A. Procurement of finance only
 - B. Expenditure of funds only
 - C. Safe custody of funds only
 - D. Procurement and effective utilization of funds

ANSWER: D

26. Which of the following statements is not correct regarding earnings per share (EPS) maximization as the primary goal of the firm?
- A. EPS maximization ignores the firm's risk level.
 - B. EPS maximization does not specify the timing or duration of expected EPS.
 - C. EPS maximization naturally requires all earnings to be retained.
 - D. EPS maximization is concerned with maximizing net income.

ANSWER: D

27. _____ is concerned with the maximization of a firm's stock price.
- A. Shareholder wealth maximization
 - B. Profit maximization
 - C. Stakeholder welfare maximization
 - D. EPS maximization

ANSWER: A

28. The only viable goal of financial management is:
- A. profit maximization
 - B. wealth maximization
 - C. assets maximization
 - D. Sales maximization

ANSWER: B

29. The basic objective of financial management is:
- A. maximization of profits
 - B. maximization of shareholders' wealth
 - C. ensuring financial discipline in the organization
 - D. none of the above

ANSWER: B

30. Finance function involves:
- A. Procurement of finance only
 - B. Expenditure of funds only
 - C. Safe custody of funds only
 - D. Procurement and effective utilization of funds
- ANSWER: D
31. The goal of wealth maximization takes into consideration:
- A. Risk related to uncertainty of returns
 - B. Timing of expected returns
 - C. Amount of returns expected
 - D. All of the above
- ANSWER: D
32. Financial management is mainly concerned with
- A. Arrangement of funds
 - B. All aspects of acquiring and utilizing means of financial resources for firm's activities
 - C. activities
 - D. Efficient management of every business
 - E. None of the above
- ANSWER: B
33. Time value of money explains that:
- A. A unit of money received today is worth more than a unit received in future
 - B. A unit of money received today is worth less than a unit received in future
 - C. A unit of money received today and at some other time in future is equal
 - D. None of them
- ANSWER: A
34. Time value of money facilitates comparison of cash flows occurring at different time periods by:
- A. Compounding all cash flows to a common point of time
 - B. Discounting all cash flows to a common point of time
 - C. Using either of a or b
 - D. Neither a nor b
- ANSWER: C
35. If the nominal rate of interest is 10% pa and frequency of compounding is 4 i.e. quarterly compounding, the effective rate of interest will be:
- A. 10.25% pa
 - B. 10.38% pa
 - C. 10% pa
 - D. None of them

ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

- 1 What is Financing Decision?
- 2 What is Investment Decision?
- 3 What is Dividend Decision?
- 4 What types of Investment Decision?
- 5 What are the contribution of financial management in different areas?
- 6 Define Finance.
- 7 What do you mean by funds?
- 8 What is the concept of Financial Management?
- 9 Explain the different sources of finance.
- 10 Describe three broad areas of financial decision making?
- 11 Explain the utility of time value of money to a corporate.
- 12 Discuss the objectives of the firm. Which of these goals is superior and why?
- 13 What are the major types of financial management decisions that business firms take? Discuss in brief.
- 14 Write short note on functions of a financial manager
- 15 Differentiate between finance and accounting
- 16 Explain the concept of wealth in the context of wealth maximization objective.
- 17 Distinguish between present value and future value.
- 18 Discuss relevance of time value of money in financial decision making?
- 19 Evaluate Wealth-Maximization objective of Financial Management
- 20 What are the main functions of the modern Finance Manager? How do they differ from those of traditional Finance Manager?
- 21 Explain the concept of Time Value of Money
- 22 What is the significance to financial management, of increase in output, fixed costs, variable cost and selling price?
- 23 Comment on the emerging role of the finance manager in India.
- 24 State the decisions involved in Financial management.
- 25 What are the long-term sources of finance?
- 26 Evaluate Wealth-Maximization objective of Financial Management
- 27 What are the main functions of the modern Finance Manager? How do they differ from those of traditional Finance Manager?
- 28 Explain the concept of Time Value of Money
- 29 Distinguish between present value and future value.
- 30 Discuss relevance of time value of money in financial decision making?

III LONG ANSWER TYPE QUESTIONS:

- 1 What are the Basic Financial Decisions? How do they involve risk return trade-off?
- 2 Critically evaluate the goal of maximization of profit and maximization of return on equity.
- 3 What are the Basic Financial Decisions? How do they involve risk return trade-off?
- 4 “The finance manager’s primary task is to plan for the acquisition and use of funds so as to maximize the value of the firm.” Do you agree with the statement? Comment.

- 5 “It is advantageous to decentralize accounting function while finance function should be centralized.’ Comment on the above statement.
- 6 Why is it inappropriate to seek profit maximization as the goal of financial decision making? How would you justify the adoption of present value maximization as an apt substitute for it?
- 7 Explain the relevance of time value of money in financing and investment decisions.
- 8 When can there arise a conflict between shareholders and managers goals? How does wealth maximisation goal take care of this conflict?
- 9 How Financial Management is connected to different subjects. Give the scope of Financial Management.
- 10 Should the titles of controller and treasurer be adopted under Indian context? Would you like to modify their functions in view of the company practices in India? Justify your opinion.
- 11 What are the different types of goals of Financial Management?
- 12 ‘Generally, individuals show a time preference for money.’ Give reasons for such a preference.
- 13 Why is the consideration of time important in financial decision-making? How can time value be adjusted? Illustrate your answer.
- 14 Explain the mechanics of calculating the present value of cash flows.
- 15 “The finance manager’s primary task is to plan for the acquisition and use of funds so as to maximize the value of the firm.” Do you agree with the statement? Comment.
- 16 “It has been traditionally argued that the objective of a firm is to earn profit, hence the objective of financial management is also profit making.” Comment.
- 17 Describe the relationship between finance and economics and explain why the finance manager should possess a basic knowledge of economics.
- 18 Explain how the typical corporate firm is organized as it relates to the financial management function.
- 19 The managers in an enterprise are responsible for the proper utilization of the resources under their control. Since the resources are acquired in exchange for money, the decision of the managers will ultimately affect the financial condition of the organization. In this sense it can be said that the finance function interfaces with major functions of the enterprise as well as the top management. Briefly explain the interface function of the finance function with marketing and production function and the top management.
- 20 Why is the consideration of time important in financial decision-making? How can time value be adjusted? Illustrate your answer.
- 21 What are the objectives and limitations of Financial Management?
- 22 Compare different sources of finance in terms of their advantages and disadvantages.
- 23 What is financial Management? What are different types of decisions involved in Financial Management?
- 24 Comment on emerging role of finance manager in India.
- 25 ‘Every Manager has to take three major decisions while performing the finance function’ briefly explain them.
- 26 ‘Every Manager has to take three major decisions while performing the finance function’ briefly explain them.
- 27 Should the titles of controller and treasurer be adopted under Indian context? Would you like to modify their functions in view of the company practices in India? Justify your

- opinion.
- 28 'Generally, individuals show a time preference for money.' Give reasons for such a preference.
- 29 Why is the consideration of time important in financial decision-making? How can time value be adjusted? Illustrate your answer.
- 30 Explain the mechanics of calculating the present value of cash flows

UNIT - II

I MULTIPLE CHOICE QUESTIONS:

- 1 Capital budgeting is a part of:
- A. Investment decision
 - B. Working capital management
 - C. Marketing management
 - D. Capital structure
- ANSWER: A
- 2 In proper capital budgeting analysis we evaluate incremental _____ cash flows.
- A. accounting
 - B. operating
 - C. before-tax
 - D. financing
- ANSWER: B
- 3 The estimated benefits from a capital budgeting project are expected as cash flows rather than income flows because _____.
- A. it is more difficult to calculate income flows than cash flows
 - B. it is cash, not accounting income, that is central to the firm's capital budgeting decision
 - C. this is required by the accounting profession
- ANSWER: D
- 4 In case of the indivisible projects, which of the following may not give the optimum result?
- A. Internal Rate of Return
 - B. Profitability Index
 - C. Feasibility Set Approach
 - D. All of the above
- ANSWER: C
- 5 All of the following influence capital budgeting cash flows *except* _____.
- A. choice of depreciation method for tax purposes
 - B. economic length of the project
 - C. projected sales (revenues) for the project
 - D. sunk costs of the project

ANSWER: B

- 6 The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.
- A. include sunk costs, but ignore opportunity costs
 - B. include opportunity costs, but ignore sunk costs
 - C. ignore both opportunity costs and sunk costs
 - D. include both opportunity and sunk costs

ANSWER: B

- 7 Interest payments, principal payments, and cash dividends are _____ the typical budgeting cash-flow analysis because they are _____ flows.
- A. included in; financing
 - B. excluded from; financing
 - C. included in; operating
 - D. excluded from; operating

ANSWER: C

- 8 Which of the following is least likely to be part of the calculation of the terminal-year incremental net cash flow for an energy-related expansion project?
- A. An initial working capital investment is now returned as an additional cash inflow
 - B. Disposal/reclamation costs
 - C. Capitalized expenditures
 - D. Salvage value of any sold or disposed assets

ANSWER: D

- 9 A profitability index (PI) of .92 for a project means that _____.
- A. The project's costs (cash outlay) are (is) less than the present value of the project's benefits
 - B. The project's NPV is greater than zero
 - C. The project's NPV is greater than 1
 - D. The project returns 92 cents in present value for each current rupee invested (cost)

ANSWER: C

- 10 Which of the following statements is *incorrect* regarding a normal project?
- A. If the NPV of a project is greater than 0, then its PI will exceed 1.
 - B. If the IRR of a project is 8%, its NPV, using a discount rate, k , greater than 8%, will be less than 0.
 - C. If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows.
 - D. If the IRR of a project is greater than the discount rate, k , then its PI will be greater than 1.

ANSWER: D

- 11 Assume that a firm has accurately calculated the net cash flows relating to two mutually exclusive investment proposals. If the net present value of both proposals exceed zero and the firm is not under the constraint of capital rationing, then the firm should _____.
- A. calculate the IRRs of these investments to be certain that the IRRs are greater than the cost of capital
 - B. compare the profitability index of these investments to those of other possible investments
 - C. calculate the payback periods to make certain that the initial cash outlays can be recovered within a appropriate period of time
 - D. accept the proposal that has the largest NPV since the goal of the firm is to maximize shareholder wealth and, since the projects are mutually exclusive, we can only take one
- ANSWER: D

- 12 Which of the following statements regarding cash flow patterns (for time periods 0, 1, 2, 3, and 4) is correct?
- A. The sequence of -Rs.100, Rs.50, Rs.40, Rs.60, and Rs.50 is a non-conventional cash flow pattern
 - B. The sequence of -Rs.100, Rs.600, -Rs.1,100, Rs.600, and Rs.20 potentially has a maximum of two internal rates of return.
 - C. The sequence of +Rs.100, -Rs.1,100, and Rs.1,600 is a conventional cash flow pattern.
 - D. The sequence of -Rs.50, Rs.50, Rs.70, Rs.60, and -Rs.150 potentially has at most two internal rates of return.
- ANSWER: B

- 13 Which of the following statements is correct regarding the internal rate of return (IRR) method?
- A. Each project has a unique internal rate of return
 - B. As long as you are not dealing with mutually exclusive projects, capital rationing, or unusual projects having multiple sign changes in the cash-flow stream, the internal rate of return method can be used with reasonable confidence.
 - C. The internal rate of return does not consider the time value of money.
 - D. The internal rate of return is rarely used by firms today because of the ease at which net present value is calculated.
- ANSWER: D

- 14 Which of the following is *not* a potential for a ranking problem between two mutually exclusive projects?
- A. The projects have unequal lives that differ by several years
 - B. The costs of the two projects differ by nearly 30%.
 - C. The two projects have cash flow patterns that differ dramatically
 - D. One of the mutually exclusive projects involves replacement while the other involves expansion
- ANSWER: A

- 15 A project whose acceptance precludes the acceptance of one or more alternative projects is referred to as _____.
- A. a mutually exclusive project.
 - B. an independent project.
 - C. a dependent project
 - D. a contingent project

ANSWER: C

- 16 A project whose acceptance requires the acceptance of one or more alternative projects is referred to as _____.
- A. a mutually exclusive project.
 - B. an independent project.
 - C. a dependent project
 - D. a contingent project
 - E. none of the above

ANSWER: A

17. When operating under a single-period capital-rationing constraint, you may first want to try selecting projects by descending order of their _____ in order to give yourself the best chance to select the mix of projects that adds most to firm value.
- A. profitability index (PI)
 - B. net present value (NPV)
 - C. internal rate of return (IRR)
 - D. payback period (PBP)

ANSWER: B

18. Which of the following statements is correct regarding the internal rate of return (IRR) method?
- A. Each project has a unique internal rate of return.
 - B. As long as you are not dealing with mutually exclusive projects, capital rationing, or unusual projects having multiple sign changes in the cash-flow stream, the internal rate of return method can be used with reasonable confidence.
 - C. The internal rate of return does not consider the time value of money.
 - D. The internal rate of return is rarely used by firms today because of the ease at which net present value is calculated.

ANSWER: D

19. Which of the following is not a potential for a ranking problem between two mutually exclusive projects?
- A. The projects have unequal lives that differ by several years.
 - B. The costs of the two projects differ by nearly 30%.
 - C. The two projects have cash flow patterns that differ dramatically.
 - D. One of the mutually exclusive projects involves replacement while the other involves expansion.

ANSWER: A

20. A project whose acceptance precludes the acceptance of one or more alternative projects is referred to as _____.
- A. a mutually exclusive project.
 - B. an independent project.
 - C. a dependent project.
 - D. a contingent project.

ANSWER: A

21. Two mutually exclusive projects are being considered. Neither project will be repeated again in the future after their current lives are complete. There exists a potential problem though -- the expected life of the first project is one year and the expected life of the second project is three years. This has caused the NPV and IRR methods to suggest different project preferences. What technique can be used to help make a better decision in this scenario?
- A. Rely on the NPV method and make your choice as it will tell you which one is best.
 - B. Use the common-life technique to replicate the one-year project three times and recalculate the NPV and IRR for the one-year project.
 - C. Ignore the NPV technique and simply choose the highest IRR since managers are concerned about maximizing returns.
 - D. In this situation, we need to rely on the profitability index (PI) method and choose the one with the highest PI.

ANSWER: A

22. To the nearest rupee, what is the net present value of a replacement project whose cash flows are -Rs.104,000; Rs.34,444; Rs.39,877; Rs.25,000; and Rs.52,800 for years 0 through 4, respectively? The firm has decided to assume that the appropriate cost of capital is 10% and the appropriate risk-free rate is 6%.
- A. Rs.15,115
 - B. Rs.26,798
 - C. Rs.33,346
 - D. Rs.48,121

ANSWER: C

23. A project has the following cash inflows Rs.34,444; Rs.39,877; Rs.25,000; and Rs.52,800 for years 1 through 4, respectively. The initial cash outflow is Rs.104,000. Which of the following four statements is correct concerning the project internal rate of return (IRR)?
- A. The IRR is less than 10%.
 - B. The IRR is greater than or equal to 10%, but less than 14%.
 - C. The IRR is greater than or equal to 14%, but less than 18%.
 - D. The IRR is greater than or equal to 18%.

ANSWER: C

24. You must decide between two mutually exclusive projects. Project A has cash flows of -Rs.10,000; Rs.5,000; Rs.5,000; and Rs.5,000; for years 0 through 3, respectively. Project B has cash flows of -Rs.20,000; Rs.10,000; Rs.10,000; and Rs.10,000; for years 0 through 3, respectively. The firm has decided to assume that the appropriate cost of capital is 10% for both projects. Which project should be chosen? Why?
- A. A; Project A's NPV > Project B's NPV.
 - B. A or B; Makes no difference which you choose because the IRR for A is identical to the IRR for B and both IRRs are greater than 10 percent, the cost of capital.
 - C. B; Project B's NPV > Project A's NPV.
 - D. Neither A nor B; The NPVs of both projects are negative.

ANSWER: C

25. A project whose acceptance requires the acceptance of one or more alternative projects is referred to as _____.
- A. a mutually exclusive project
 - B. an independent project
 - C. a dependent project
 - D. None of the above

ANSWER: B

26. Which of the following is not used in capital budgeting?
- A. Time Value of Money
 - B. Sensitivity Analysis
 - C. Net Assets Value Method
 - D. Cash Flows

ANSWER: C

27. Capital budgeting decisions are:
- A. Reversible
 - B. Irreversible
 - C. Unimportant
 - D. All of the above

ANSWER: B

28. Which of the following is not incorporated in capital budgeting?
- A. Tax effect
 - B. Time Value of Money
 - C. Required rate of return
 - D. Rate of cash discount

ANSWER: D

29. Which of the following is not a capital budgeting decision?
- A. Expansion programme
 - B. Merger
 - C. Replacement of an Asset
 - D. Inventory Level

ANSWER: D

30. A sound capital budgeting technique is based on:
- A. Cash Flows
 - B. Accounting Profit
 - C. Interest rate on borrowings
 - D. Last dividend paid
- ANSWER: A
31. Which of the following is not a relevant cost in capital budgeting?
- A. Sunk Cost
 - B. Opportunity cost
 - C. Allocated overheads
 - D. Both (A) and (c) above
- ANSWER: D
32. Capital budgeting decisions are based on:
- A. Incremental profit
 - B. Incremental cash flows
 - C. Incremental assets
 - D. Incremental capital
- ANSWER: B
33. Which of the following does not affect cash flows from a proposal:
- A. Salvage value
 - B. Depreciation amount
 - C. Tax rate change
 - D. Method of project financing
- ANSWER: D
34. Cash inflows from a project include:
- A. tax shield of depreciation
 - B. after tax operating profits
 - C. raising of funds
 - D. Both (A) and (b)
- ANSWER: D
35. Which of the following is not followed in capital budgeting?
- A. Cash flows principle
 - B. Interest exclusion principle
 - C. Accrual principle
 - D. Post tax principle
- ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

- 1 Explain the meaning of the term Capital.
- 2 What is Capital Budgeting?
- 3 Write a short note on conventional cash flows.
- 4 What is payback period?
- 5 Discuss the applicability of the concept of payback period.
- 6 Define accounting rate of return.
- 7 What are the merits of ARR as a capital budgeting technique.
- 8 What do you understand by IRR. Explain.
- 9 Briefly explain capital rationing.
- 10 Explain certainty equivalent approach.
- 11 Write a short note on risk adjusted discount rate.
- 12 Explain decision tree approach.
- 13 Distinguish between Internal rate of return and Accounting rate of return with appropriate illustrations.
- 14 What is the significance of profitability index? How is it useful in projects having different sizes?
- 15 Under what circumstances is it better than NPV?
- 16 How can the inflation be incorporated in the capital budgeting decision process.
- 17 Explain the concept of risk analysis with reference to capital budgeting.
- 18 "Risk analysis is an essential feature of investment decision making process." What are the major risk factors and how will you control them.
- 19 State three important steps in the evaluation of investments.
- 20 What is meant by the term value of money?
- 21 "The average accounting rate of return fails to give weight to the later cash flows." Elaborate.
- 22 Explain the concept of value-additivity in the NPV method.
- 23 Write a note on Inflation and Capital budgeting.
- 24 What is meant by the term time value of money? Which capital budgeting methods take into consideration this concept?
- 25 Distinguish between NPV and IRR.
- 26 The cash flow approach of measuring future benefits of a project is superior to the accounting approach. Discuss.
- 27 What are mutually exclusive projects? Explain the conditions when conflicting ranking would be given by the internal rate of return and net present value methods to such projects.
- 28 Under what circumstances do the net present value and internal rate of return methods differ? Which methods would you prefer and why?
- 29 What is meant by the term time value of money? Which capital budgeting methods take into consideration this concept? How is it possible for the capital budgeting methods that do not consider the time value of money to lead to wrong capital budgeting decisions?
- 30 "The payback reciprocal has wide applicability as a meaningful approximation of the time adjusted rate of return. But it suffers from certain major limitations." Explain.

III LONG ANSWER TYPE QUESTIONS:

- 1 Discuss the major aspects, assumptions and decision rules of the Discounted Cash Flow method.
- 2 What is meant by internal Rate of Return of a project? How do you calculate IRR given the initial investment on the project and the cash flows arising during the expected life of the project?
- 3 Distinguish between NPV and IRR.
- 4 Make a comparison between NPV and IRR methods. Which one of the two you find to be more rationale and why.
- 5 “The payback period is more a method of liquidity rather than profitability.” Examine.
- 6 Do the Profitability Index and NPV criterion of evaluating investment proposals lead to the same acceptance rejection and ranking decisions? In what situations will they give conflicting results?
- 7 Why is it important to evaluate capital budgeting projects on the basis of after-tax cash incremental flows? Why not use accounting data instead of cash flows?
- 8 Describe the concept of discounted cash flows in making investment decisions and its superiority over the traditional methods of investment evaluation.
- 9 How is payback period calculated? How is it helpful in determining IRR.
- 10 ‘Risk analysis is an essential feature of investment decision making process.’ What are the major risk factors and how will you control them.
- 11 ‘The terminal value method overcomes the shortcomings of the assumption of reinvestment rate.’ In light of this statement, explain the procedure of this terminal value method.
- 12 “NPV method ensures maximization of wealth of the shareholders in the long run.’ Comment.
- 13 What is the significance of profitability index? How is it useful in projects having different sizes? Under what circumstances is it better than NPV?
- 14 How can the inflation be incorporated in the capital budgeting decision process. Explain the difference between real and optimum replacement period.
- 15 What is meant by the term time value of money? Which capital budgeting methods take into consideration this concept? How is it possible for the capital budgeting methods that do not consider the time value of money to lead to wrong capital budgeting decisions?
- 16 “The payback reciprocal has wide applicability as a meaningful approximation of the time adjusted rate of return. But it suffers from certain major limitations.” Explain.
- 17 What is risk evaluation and sensitivity analysis? Analyse the relevance of sensitivity analysis in capital budgeting.
- 18 What are mutually exclusive projects? Explain the conditions when conflicting ranking would be given by the internal rate of return and net present value methods to such projects.
- 19 Under what circumstances do the net present value and internal rate of return methods differ? Which methods would you prefer and why?
- 20 XYZ is interested in assessing the cash flows associated with the replacement of an old machine by a new machine. The old machine bought a few years ago has a book value of Rs. 90,000 and it can be sold for Rs. 90,000. It has a remaining life of five years after which its salvage value is expected to be nil. It is being depreciated annually at the rate of 20 per cent (written down value method.)

The new machine costs Rs. 4,00,000. It is expected to fetch Rs. 2,50,000 after five years when it will no longer be required. It will be depreciated annually at the rate of 33 1/3 per cent (written down value method.) The new machine is expected to bring a saving of Rs. 1,00,000 in manufacturing costs. Investment in working capital would remain unaffected. The tax rate applicable to the firm is 50 per cent. Find out the relevant cash flow for this replacement decision. (Tax on capital gain/loss to be ignored)

Ans. Yr.1 Rs. 107.6, Yr 2 Rs. 87.2, Yr 3 Rs. 73.9, Yr. 4 Rs. 65.2, Yr 5 Rs. 59.4, terminal flows: 3,09,400

- 21 XYZ Ltd. is trying to decide whether it should replace a manually operated machine with a fully automatic version of the same machine. The existing machine, purchased ten years ago, has a book value of Rs. 2,40,000 and remaining life of 20 years. Salvage value was Rs. 40,000. The machine has recently begun causing problems with breakdowns and is costing the company Rs. 20,000 per year in maintenance expenses. The company has been offered Rs. 1,00,000 for the old machine as a trade-in on the automatic model which has a deliver price (before allowance for trade-in) of Rs. 2,20,000. It is expected to have a ten-year life and a salvage value of Rs. 20,000. The new machine will require installation modifications costing Rs. 40,000 to the existing facilities, but it is estimated to have a cost savings in materials of Rs. 80,000 per year. Maintenance costs are included in the purchase contract and are borne by the machine manufacturer. The tax rate is 40% (applicable to both revenue income as well as capital gains/losses). Straight-line depreciation over ten years will be used. Find out the relevant cash flows.

Ans. Initial flows: Rs. 1,44,000; Subsequent Rs. 65,600 and Terminal Rs. 85,600

- 22 A company has to make a choice between two projects namely A and B. the initial capital outlays of two projects are Rs. 1,35,000 and Rs. 2,40,000 respectively for A and B. there will be no scrap value at the end of the life of both the projects. The opportunity cost of capital of the company is 16%. The annual incomes are as under:

Year	Project A	Project B
1	-	60,000
2	30,000	84,000
3	1,32,000	96,000
4	84,000	1,02,000
5	84,000	90,000

You are required to calculate for each Project

A B

- i) Discounted Payback period **Ans. 3.61 yrs 4.19 yrs**
 ii) Profitability Index **Ans. 1.43 1.15**
 iii) NPV **Ans. Rs. 58,254 Rs. 34,812**

- 23 Z Industries Ltd. are thinking of investing in a project costing Rs. 20 lakhs. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows:

Year	1	2	3	4	5
Estimated cash flows before depreciation and tax (in lakhs)	4	6	8	8	10

You are required to determine the
 Payback Period for the investment **Ans. 3 yrs 10 months**
 ARR on the investment **Ans. 16%**
 NPV at 10% cost of capital **Ans. 0.717 lakhs**
 Benefit cost ratio **Ans. 1.036**

24 The cash flows of two mutually exclusive projects are as under:

	T0	T1	T2	T3	T4	T5	T6
Project P	(40,000)	13,000	8,000	14,000	12,000	11,000	15,000
Project J	(20,000)	7,000	13,000	12,000	-	-	-

Required:

- Estimate the net present value using 15%.
- Estimate the internal rate of return.
- Why is there a conflict in the project choice by using NPV and IRR criterion.
- Which criteria you will use in such a situation? Estimate the value at that criterion. Make a project choice.

Ans.

	Project P	Project J
i) NPV	5,374	3,806
ii) IRR	19.75%	25.31%

25 Jolly company has an investment opportunity costing Rs. 40,000 with the following expected cash inflow (*i.e.* after tax and before depreciation):

Year	Inflows	PVF	Year	Inflows	PVF
1	Rs.7,000	0.909	6	Rs. 8,000	0.564
2	7,000	0.826	7	10,000	0.513
3	7,000	0.731	8	15,000	0.467
4	7,000	0.653	9	10,000	0.424
5	7,000	0.621	10	4,000	0.386

Using 10% as the cost of capital (rate of discount) determine the (i) Net Present Value; and (ii) Profitability Index.

Ans. NPV = Rs. 8,961, PI = 1.22

26 C is considering investing in a project. The expected investment will be Rs. 2,00,000. The life of project will be 5 years with no salvage value. The expected net cash inflows after depreciation but before tax during the life of the project will be as follows:

Year	1	2	3	4	5
Rs.	85,000	1,00,000	80,000	80,000	40,000

Project will be depreciated at the rate of 20% on original cost. Tax rate 30%. Calculate

- i) ARR (**Ans: 53.90%**)
- ii) Payback period (**Ans. 1year 11 months**)
- iii) IRR (**Ans. 39.91%**)
- iv) NPV if cost of capital is 10% (**Ans. Rs. 1,61,197**)

27 K company is considering to set up a coaching centre at a total outlay of Rs. 18,00,000. The operational and maintenance cost excluding depreciation are expected to be Rs. 3,00,000 p.a. life of equipment is 10 years with no salvage value. Depreciation is 30% w.d.v. tax rate if 40%. The centre will generate an income of Rs. 6,00,000 p.a. by way of tuition fee and Rs. 1,00,000 on job work. Calculate NPV and IRR if cost of capital is 12%. (**Ans. NPV = (49,216), IRR = 12.24%**)

28 A firm can make investment in either of the following two projects. The firm anticipates its cost of capital to be 10%. And the net (after tax) cash flows of the projects for the five years are as follows: -

(Figure in Rs. '000)						
Year	0	1	2	3	4	5
Project A	(500)	85	200	240	220	70
Project B	(500)	480	100	70	30	20
The discount factors are as under						
Year	0	1	2	3	4	5
PVF (10%)	1	0.91	0.83	0.75	0.68	0.62
PVF (20%)	1	0.83	0.69	0.58	0.48	0.41

Required: -

- i. Calculate the NPV and IRR of the project.
- ii. State with reason which project you would recommend.

Ans

	Project A	Project B
NPV	116.35	105.1
IRR	18.663%	24.107%

- i. As per NPV, Project A should be selected.
- ii. As per IRR, Project B should be selected.

29 No Project is acceptable unless the yield is 10%. Cash inflows of a certain project along with cash outflows are given below:

Year	Outflow (Rs.)	Inflow(Rs.)
0	150000	-
1	30000	20000
2	-	30000
3	-	60000
4	-	80000
5	-	70000

Calculate net present value

Ans: Net present value = Present value of Inflows - Present value of Outflows
= Rs.186130 – Rs. 177270
= Rs 8860

30 One of the two machines A and B is to be purchased. Form the following Information find out which of the two will be more profitable? The average rate of tax may be taken at 50%.

	Machine A (Rs.)	Machine B (Rs.)
Cost of machine	50000	80000
Machine Life	4 years	6 years
Earnings Before Tax		
1st year	10000	8000
2nd year	15000	14000
3rd year	20000	25000
4th year	15000	30000
5th year		18000
6th year		13000

Ans:

(a) Pay back period

Investment = Rs. 80,000

Cumulative Cash Flows shows that the recovery up to 3rd year = 63499

therefore for the balance of Rs. 16501 will be recovered in 4th year.

i.e. $16501/28333 = 0.58$ year

therefore payback period is 3.58 years

(b) Average rate of return (based on original investment)

= Average Profits/net investment x 100

= $54000/6 \times 100$

= 11.25%

Machine A is profitable in both the cases

Note: - It has been assumed that Earnings Before tax in the problem is after considering depreciation on straight line basis.

UNIT- III

I MULTIPLE CHOICE QUESTIONS:

1. In weighted average cost of capital, a company can affect its capital cost through
- A. policy of capital structure
 - B. policy of dividends
 - C. policy of investment
 - D. all of the above

ANSWER: D

2. Composite cost is inclusive of all cost of capital from all sources.
- A. True
 - B. False

ANSWER: A

3. Marginal cost is the weighted average cost of the new funds raised by the firm.
- A. True
 - B. False

ANSWER: A

4. Retained earnings have no cost to the firm.
- A. True
 - B. False

ANSWER: B

5. Market value weights are theoretically consistent and sound as compared to book value weights.
- A. True
 - B. False

ANSWER: A

6. Cost of capital refers to:
- A. Floatation costs
 - B. dividend
 - C. required rate of return
 - D. none of the above

ANSWER: C

7. Which of the following sources of funds has an implicit cost of capital?
- A. equity share capital
 - B. preference share capital
 - C. debentures
 - D. retained earnings

ANSWER: D

8. Which of the following has the highest cost of capital?

- A. equity shares
- B. loans
- C. bonds
- D. preference shares

ANSWER: A

9. Cost of capital for government securities is also known as:

- A. risk free rate of interest
- B. maximum rate of return
- C. rate of interest on fixed deposits
- D. none of the above

ANSWER: A

10. Cost of capital for bonds and debentures is calculated on:

- A. before tax basis
- B. after tax basis
- C. risk free rate of interest basis
- D. none of the above

ANSWER: B

11. The discount rate used to determine the present value of a stream of expected future cash flows is referred to as the _____.

- A. net operating income
- B. capitalization rate
- C. capital structure
- D. yield on the company's market value of common equity

ANSWER: B

12. The traditional approach towards the valuation of a company assumes that _____.

- A. the cost of capital is independent of the capital structure of the firm
- B. the firm maintains constant risk regardless of the type of financing employed
- C. there exists no optimal capital structure
- D. that management can increase the total value of the firm through the judicious use of financial leverage

ANSWER: D

13. The presence of which one of the following costs is not used as a major argument against the M&M arbitrage process?

- A. Bankruptcy costs.
- B. Agency costs.
- C. Transactions costs.
- D. Insurance costs.

ANSWER: D

14. The term 'capital structure' also includes the financial structure.
A. True
B. False

ANSWER: B

15. The optimum capital structure is obtained when the market value per equity share is the maximum.
A. True
B. False

ANSWER: A

16. Which of the following statements regarding the net operating income approach is incorrect?
A. The overall capitalization rate, k_O , is constant.
B. The cost of debt funds, k_i , is constant.
C. The required return on equity, k_e , is constant.
D. The total value of the firm is unaffected by changes in financial leverage.

ANSWER: C

17. A high breakeven point would indicate high operating leverage.
A. True
B. False

ANSWER: A

18. Which of the following formulas represents a correct calculation of the degree of operating leverage
A. $(Q - Q_{BE})/Q$
B. $(EBIT) / (EBIT - FC)$
C. $[Q(P-V) + FC] / [Q(P-V)]$
D. $[Q(P-V)] / [Q(P-V) - FC]$

ANSWER: D

19. Composite leverage explains change in taxable income on account of change in sales.
A. True
B. False

ANSWER: A

20. Which of the following formulas represents the correct calculation of the degree of financial leverage?
A. $[NI + T + I] / [NI - I - PD/(1-T)]$
B. $EBIT / [EBIT - I - PD/(1-T)]$
C. $EBIT / [NI - I - PD/(1-T)]$
D. All of the above are correct methods to calculate the degree of financial leverage (DFL).

ANSWER: B

21. A firm is considering three different financing alternatives -- debt, preferred stock, and common equity. The firm has created an EBIT-EPS chart that shows several indifference points. What does each indifference point show the firm?
- A. The level of EBIT that generates identical EPS under two alternative financing plans.
 - B. The level of sales that generates identical EBIT and EPS figures.
 - C. It shows the level of EBIT and EPS at which DFL is identical under two alternative financing plans.
 - D. None of the above.
- ANSWER: A
22. In MM Model, irrelevance of capital structure is based on:
- A. Cost of Debt and Equity
 - B. Arbitrage Process
 - C. Decreasing K_o ,
 - D. All of the above
- ANSWER: B
23. The ideal situation is to have a high financial leverage and low operating leverage.
- A. True
 - B. False
- ANSWER: A
24. The maximum amount of debt (and other fixed-charge financing) that a firm can adequately service is referred to as the _____.
- A. debt capacity
 - B. debt-service burden
 - C. adequacy capacity
 - D. fixed-charge burden
- ANSWER: A
25. The cash required during a specific period to meet interest expenses and principal payments is referred to as the:
- A. debt capacity.
 - B. debt-service burden.
 - C. adequacy capacity.
 - D. fixed-charge burden.
- ANSWER: B
26. Cost of Capital refers to:
- A. Flotation Cost
 - B. Dividend
 - C. Required Rate of Return
 - D. None of the above
- ANSWER: C

27. Which of the following sources of funds has an Implicit Cost of Capital?
- A. Equity Share Capital
 - B. Preference Share Capital
 - C. Debentures
 - D. Retained earnings

ANSWER: D

28. Which of the following has the highest cost of capital?
- A. Equity shares
 - B. Loans
 - C. Bonds
 - D. Preference shares

ANSWER: A

29. Cost of Capital for Government securities is also known as:
- A. Risk-free Rate of Interest
 - B. Maximum Rate of Return
 - C. Rate of Interest on Fixed Deposits
 - D. None of the above

ANSWER: A

30. Cost of Capital for Bonds and Debentures is calculated on:
- A. Before Tax basis
 - B. After Tax basis
 - C. Risk-free Rate of Interest basis
 - D. None of the above

ANSWER: B

31. Weighted Average Cost of Capital is generally denoted by:
- A. k_A ,
 - B. k_w ,
 - C. k_0 ,
 - D. k_c

ANSWER: C

32. Which of the following cost of capital require tax adjustment?
- A. Cost of Equity Shares
 - B. Cost of Preference Shares
 - C. Cost of Debentures
 - D. Cost of Retained Earnings.

ANSWER: C

33. Which is the most expensive source of funds?
- A. New Equity Shares
 - B. New Preference Shares
 - C. New Debts
 - D. Retained Earnings

ANSWER: A

34. Marginal cost of capital is the cost of:

- A. Additional Sales
- B. Additional Funds
- C. Additional Interests
- D. None of the above

ANSWER: B

35. In case the firm is all-equity financed, WACC would be equal to:

- A. Cost of Debt
- B. Cost of Equity
- C. Neither (A) nor (b)
- D. Both (A) and (b)

ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

1. What is meant by the concept of “financial risk”?
2. Write Short note on Home Made Leverage.
3. Write Short note on Projected Cash Flow analysis.
4. What is meant by the term “leverage”? What are its types?
5. What is the indifference point? And why is it called so?
6. How to calculate indifference point in the EBIT-EPS analysis?
7. Write a critical note on the traditional approach to capital structure.
8. What do you understand by capital structure? What are the major determinants of capital Structure?
9. Explain the term ‘Point of Indifference’.
10. Differentiate ‘Capitalisation’ and ‘Capital Structure’.
11. What is ‘Optimum Capital Structure’?
12. Write a note on ‘Arbitrage Process’.
13. What is meant by Financial Break-even point?
14. Explain EBIT-EPS approach for determining capital structure of a company.
15. Write short note on Modigliani-Miller Approach.
16. Explain the concept of Marginal Cost of Capital
17. Briefly discuss the rationale of Cost of Capital
18. Explain the rationale of using weighted cost of capital.
19. “Reserves and surpluses have no cost”. Do you agree? Give reasons for your answer.
20. Why is it that the ‘debt’ is the cheapest source of finance for a profit-making company?
21. What is meant by the concept ‘financial risk’? What is the relationship between leverage and the cost of capital? Explain
22. Write notes on Arbitrage process
23. Explain implicit cost of capital.
24. What is Financial Structure?
25. Describe NI and NOI Approaches.
26. What is meant by the term “leverage”? What are its types?
27. What is the indifference point? And why is it called so?

28. How to calculate indifference point in the EBIT-EPS analysis?
29. Write a critical note on the traditional approach to capital structure.
30. What is meant by the concept of “financial risk”?
31. Which combination of operating and financial leverages constitutes (i) risky situation and (ii) ideal situation.
32. What is cost of capital? Explain the significance of cost of capital.
33. Discuss the relationship between the cost of equity and financial leverage in accordance with MM Proposition II.
34. Define leverage. Explain its types. Discuss its significance.
35. ‘Operating leverage is determined by firm’s cost structure and financial leverage by the mix of debt-equity funds used to finance the firm’s fixed assets. These two leverages combined provide a risk profile of the firm’. Explain.

III LONG ANSWER TYPE QUESTIONS:

1. What is meant by Cost of Capital? What are the components of cost of capital?
2. What is business risk and is it the same as financial risk? How does the use of financial leverage affect the financial risk?
3. What do you understand by cost of capital? How it is ascertained?
4. Explain the concept of Cost of Capital as a device for establishing a cut-off point of capital investment proposals.
5. What is meant by Cost of Capital for a firm and what relevance does it have in decision-making? How is it calculated with different types of sources of capital funds? Why is the cost of capital most appropriately measured on an after-tax basis?
6. What is Modigliani-Miller approach to the problem of capital structure. Under what assumptions do their conclusions hold good?
7. Explain the concept of Cost of Capital. Also explain different types of costs.
8. What do you understand by Capital Structure of a corporation. Discuss the qualities which a sound capital structure should possess.
9. Critically examine the Net Income and Net Operating Income approaches to capital structure. What is the traditional view on this question?
10. ‘An optimal combination of the decisions relating to investment, financing and dividends will maximize the value of the firm to its shareholders. Examine.
11. What do you understand by a Balanced Capital Structure? Why should a company aim at a balanced capital structure?
12. Explain the factors that determine the capital structure of a firm.
13. There is nothing like an optimal capital structure for a firm. Critically evaluate this statement.
14. What do you mean by optimum capital structure? Make a list of factors determining optimum capital structure.
15. What do you understand by capital structure of a corporation? Discuss the qualities or features of a sound capital structure.
16. Explain “Arbitrage Process” under Modigliani/Miller Theorem.
17. Explain EBIT-EPS approach for determining capital structure of a company.
18. What factors must be considered by a manager when choosing between debt and equity?

19. What is the objective of the capital structure management? How might a firm go for determining its optimal capital structure?
20. What is Cost of Capital? What is meant by Explicit Cost and Real Cost of capital?
21. Define the concept of Cost of Capital. State how you would determine the weighted average cost of capital of a firm.
22. A Ltd. is capitalized with Rs. 10 lakhs divided into 10,000 shares of Rs. 100 each. The management desires to raise another Rs. 10 lakh to finance a major expansion programme. There are four possible financing plans : (i) all equity shares, (ii) Rs. 5 lakh in equity shares and Rs. 5 lakh in debentures carrying 5% interest, (iii) all debentures carrying 6% interest shares and (iv) Rs. 5 lakh in equity shares and Rs. 5 lakh in preference carrying 5% dividend. The existing earning before interest and tax amount to Rs. 1,20,000 per annum.
- (a) You are required to calculate earnings per equity share under each of the above four financial plans.
- (b) Also calculate the earning per equity share if on account of expansion the level of *EBIT* is doubled.

Ans. (A) (i) Rs. 3, (ii) Rs. 3.67, (iii) Rs. 3 and (iv) Rs. 2.33
i. (b) (i) Rs. 3, (ii) Rs. 3, (iii) Rs. 3 and (iv) Rs. 3

23. ABC Ltd. has EBIT of Rs. 1,60,000. Its capital structure consists of the following securities:

10% Debentures	Rs. 5,00,000
12% Preference Shares	1,00,000
Equity Shares for Rs. 100 each	4,00,000

The company is in the 55% tax bracket. You are required to determine the company's EPS; the percentage change in EPS associated with 30% increase and 30% decrease in EBIT; and the degree of financial leverage.

Ans. (i) Rs. 9.375, (ii) 57.6%, (iii) 1.45

24. Calculate the Operating Leverage, Financial Leverage and Combined Leverage from the following data under situations I and II and Financial Plans A and B:

Installed Capacity	4,000 units
Actual Production and Sales	75% of the Capacity
Selling Price	Rs. 30 per unit
Variable Cost	Rs. 15 per unit

Fixed Cost:	
Under Situation I	Rs. 15,000
Under Situation II	Rs. 20,000

Capital Structure:

	<i>Financial Plans</i>	
	Rs.	Rs.
Equity	10,000	15,000
Debt(Rate of Interest at 20%)	10,000	5,000
	20,000	20,000

Ans.

	<i>Situation I</i>	<i>Situation II</i>
Operating Leverage	1.5	1.8
Financial Leverage	Plan A	Plan B
	1.07	1.04
Combined Leverage:		
(A)Situation I	1.60	1.560
(b)Situation II	1.96	1.878

- 25 Calculate operating financial and combined leverages under situations when fixed costs are (A) Rs. 5,000, and (b) Rs. 10,000 and financial plans 1 and 2 respectively from the following information pertaining to the operation and capital structure of a textile company:

Total Assets	Rs. 30,000
Total assets Turnover	2
Variable Cost as percentage of sales	60

	Financial Plan	
	1	2
Equity	Rs. 30,000	Rs. 10,000
10% Debentures	10,000	30,000

Ans. OL (Fixed Costs Rs. 5,000) 1.26, OL (Fixed Costs Rs. 10,000) 1.71, FL (Financial Plan I) 1.055 and 1.077, FL (Financial Plan II) 1.187 and 1.273, CL (Financial Plan I) 1.329 and 1.842, CL (financial Plan II) 1.496 and 2.177)

26. ABC Ltd. has the following capital structure:

Equity (expected dividend 12%)	Rs. 10,00,000
10% Preference	Rs. 5,00,000
8% Loan	Rs. 15,00,000

You are required to calculate the weighted average cost of capital, assuming 50% as the rate of income tax, before and after tax.

Ans. Before tax 9.66%, After tax 7.67%

27. Following are the details regarding the capital structure of a company:

Type of Capital	Book Value	Market Value	Specific Cost
Debentures	40,000	38,000	5%
Preference Capital	10,000	11,000	8%
Equity Capital	60,000	1,20,000	13%
Retained earnings	20,000	-	9%
	<u>1,30,000</u>	<u>1,69,000</u>	

You are requested to determine the weighted average cost of capital using: (i) book value as weights, (ii) market value as weights. Do you think, there can be situation where weighted average cost of capital would be the same irrespective of the weights used.

Ans. (i) 9.54%, (ii) 10.17%, Cost of capital would be the same irrespective of the weights in case the book value and the market value of retained earnings is Rs. 30,000 (i.e. 20,000 12/8) and equity capital Rs. 90,000 (i.e. 60,000 x 12/8)

28. The capital structure of ABC Limited consists of equity share capital of Rs. 1,00,000 (10,000 shares of Rs. 10 each) and 8% debentures of Rs. 50,000. You are required to calculate and verify the degree of financial leverage on earning before interest and tax (EBIT) level of Rs. 20,000.

Ans. Financial Leverage 1.25

- 29 Calculate degree of (i) operating leverage, (ii) financial leverage and (iii) combined leverage from the following data:

Sales 1,00,000 units @ 2 per unit = Rs. 2,00,000

Variable Cost per unit @ Re. 0.70

Fixed Costs Rs. 1,00,000

Interest Charges Rs. 3,668

Ans. (i) 4.33, (ii) 1.14, (iii) 4.9

- 30 Calculate the Degree of Operating Leverage, Degree of Financial Leverage and the Degree of Combined Leverage for the following firms and interpret the results:

	<i>P</i>	<i>Q</i>	<i>R</i>
Output (Units)	3,00,000	75,000	5,00,000
Fixed Costs (Rs.)	3,50,000	7,00,000	75,000
Unit Variable Cost (Rs.)	1.00	7.50	0.10
Interest Expenses (Rs.)	25,000	40,000	Nil
Unit Selling Price (Rs.)	3.00	25.00	0.50

Ans. Operating Leverage P = 2.40, Q = 2.14, R=1.60

Financial Leverage P = 1.11, Q = 1.07, R=1.00

**Combined Leverage P = 2.67, Q = 2.29, R=1.60
financial costs.**

- 31 The two companies X and Y belong to the same risk class. They have everything in common except that firm Y has 10% debentures of Rs. 5 laks. The valuation of the two firms is assumed to be as follows:

	X	Y
Net operating income (EBIT)	Rs. 7,50,000	Rs. 7,50,000
Interest on debt	-	50,000
Earning to equity holders	7,50,000	7,00,000
Equity capitalization	0.125	0.14
Market value of equity	60,00,000	50,00,000
Overall capitalization rate	0.125	0.1363

Debt equity ratio	0	0.1
Market value of firm	60,00,000	50,00,000 + 5,00,000 = 55,00,000

An investor owns 10% of the equity shares of the overvalued firm. Determine his investment cost of earning the same income so that he is at a break even point. Will he gain by investing in the under-valued firm?

- 32 A company is considering the following to raise additional capital for its expansion schemes:

Equity (% of cost of capital)	Debt (% of cost of capital)	Cost of equity %	Cost of debt (pretax) %
75	25	16	12
50	50	18	14
25	75	24	18

Tax rate is 50%. Which option would you recommend?

Ans. Option III

- 33 If the combined leverage and operating leverage figures of a company are 2.5 and 1.25 respectively, find the financial leverage and P/V ratio, given that the equity dividend per share is Rs. 2, interest payable per year is Rs. 1 lakh, total fixed cost Rs. 0.5 lakh and sales Rs. 10 lakh.

Ans. FL = 2,00,000, P/V Ratio = 25%

- 34 X Ltd. is a widely held company. It is considering a major expansion of its production facilities and the following alternatives are available: (Rs. Lakhs)

Particulars	A	B	C
Share capital	50	20	10
14% debentures	-	20	15
Loan from a financial institution @ 18% p.a. rate of interest	-	10	25

Expected rate of return before tax is 25%. The rate of dividend of the company is not less than 20%. The company at present has low debt. Corporate taxation is 50%. Which of the alternatives would you choose?

Ans. Alt. C should be chosen.

- 35 XYZ Ltd. is earning an annual EBIT of Rs.100 lakh. The company has Rs.200 lakh of 15% debentures in its capital structure. The equity capitalization rate for the company is 14%. The company shares can be issued in the market at a premium of Rs.10. You are required to calculate according to the net income approach.

(a) Value of the firm

(b) Overall capitalization rate

(c) Value of the firm after redemption of the debenture, assuming that the equity capitalization rate remains the same.

Ans: K_e=14.3 %, Value of Firm-714.29

UNIT – IV

I MULTIPLE CHOICE QUESTIONS:

1. Which of the following is a basic principle of finance as it relates to the management of working capital?
- A. Profitability varies inversely with risk.
 - B. Liquidity moves together with risk.
 - C. Profitability moves together with risk.
 - D. Profitability moves together with liquidity.

ANSWER: C

2. Which of the following illustrates the use of a hedging approach to financing assets?
- A. Temporary current assets financed with long-term liabilities.
 - B. Permanent working capital financed with long-term liabilities.
 - C. Short-term assets financed with equity
 - D. All assets financed with a mixture of 50% equity and 50% long-term debt.

ANSWER: B

3. In deciding the optimal level of current assets for the firm, management is confronted with _____.
- A. a trade-off between profitability and risk
 - B. a trade-off between liquidity and risk
 - C. a trade-off between equity and debt
 - D. a trade-off between short-term versus long-term borrowing

ANSWER: A

4. To financial analysts, "working capital" means the same thing as _____.
- A. Total assets
 - B. fixed assets
 - C. current assets
 - D. current assets minus current liabilities.

ANSWER: C

5. Which of the following would be consistent with an aggressive approach to financing working capital?
- A. Financing short-term needs with short-term funds.
 - B. Financing permanent inventory buildup with long-term debt.
 - C. Financing seasonal needs with short-term funds.
 - D. Financing some long-term needs with short-term funds.

ANSWER: D

6. Which of the following would be consistent with a conservative approach to financing working capital?
- A. Financing short-term needs with short-term funds.
 - B. Financing short-term needs with long-term debt.

- C. Financing seasonal needs with short-term funds.
- D. Financing some long-term needs with short-term funds.

ANSWER: B

7. Which of the following would be consistent with a hedging (maturity matching) approach to financing working capital?
- A. Financing short-term needs with short-term funds
 - B. Financing short-term needs with long-term debt.
 - C. Financing seasonal needs with long-term funds.
 - D. Financing some long-term needs with short-term funds.

ANSWER: A

8. Which of the following statements is most correct?
- A. For small companies, long-term debt is the principal source of external financing.
 - B. Current assets of the typical manufacturing firm account for over half of its total assets.
 - C. Strict adherence to the maturity matching approach to financing would call for all current assets to be financed solely with current liabilities.
 - D. Similar to the capital structure management, working capital management requires the financial manager to make a decision and not address the issue again for several months.

ANSWER: B

9. The amount of current assets required to meet a firm's long-term minimum needs is referred to as _____ working capital.
- A. permanent
 - B. temporary
 - C. net
 - D. gross

ANSWER: A

10. The amount of current assets that varies with seasonal requirements is referred to as _____ working capital.
- A. permanent
 - B. net
 - C. temporary
 - D. gross

ANSWER: C

11. Having defined working capital as current assets, it can be further classified according to _____.
- A. financing method and time
 - B. rate of return and financing method
 - C. time and rate of return
 - D. components and time

ANSWER: D

12. Your firm has a philosophy that is analogous to the hedging (maturity matching) approach.

Which of the following is the most appropriate form for financing a new capital investment in plant and equipment?

- A. Trade credit.
- B. 6-month bank notes.
- C. Accounts payable.
- D. Common stock equity.

ANSWER: D

13. Your firm has a philosophy that is analogous to the hedging (maturity matching) approach. Which of the following is the most appropriate non-spontaneous form for financing the excess seasonal current asset needs?

- A. Trade credit.
- B. 6-month bank notes.
- C. Accounts payable.
- D. Common stock equity.

ANSWER: B

14. Under a conservative financing policy a firm would use long-term financing to finance some of the temporary current assets. What should the firm do when a "dip" in temporary current assets causes total assets to fall below the total long-term financing?

- A. Use the excess funds to pay down long-term debt.
- B. Invest the excess long-term financing in marketable securities.
- C. Use the excess funds to repurchase common stock.
- D. Purchase additional plant and equipment.

ANSWER: B

15. Which of the following statements is correct for a conservative financing policy for a firm relative to a former aggressive policy?

- A. The firm uses long-term financing to finance all fixed and current assets.
- B. The firm will see an increase in its expected profits.
- C. The firm will see an increase in its risk profile.
- D. The firm will increase its dividends per share (DPS) this period.

ANSWER: A

16. Which of the following statements is correct for an aggressive financing policy for a firm relative to a former conservative policy?

- A. The firm will use long-term financing to finance all fixed and current assets.
- B. The firm will see an increase in its expected profits.
- C. The firm will see a decline in its risk profile.
- D. The firm will need to issue additional common stock this period to finance the assets.

ANSWER: B

17. How can a firm provide a margin of safety if it cannot borrow on short notice to meet its needs?
- A. Maintain a low level of current assets (especially cash and marketable securities).
 - B. Shorten the maturity schedule of financing.
 - C. Increasing the level of fixed assets (especially plant and equipment).
 - D. Lengthening the maturity schedule of financing.
- ANSWER: D
18. Risk, as it relates to working capital, means that there is jeopardy to the firm for not maintaining sufficient current assets to _____.
- A. meet its cash obligations as they occur and take advantage of prompt payment
 - B. discounts
 - C. support the proper level of sales and take prompt payment discounts
 - D. maintain current and acid-test ratios at or above industry norms
 - E. meet its cash obligations as they occur and support the proper level of sales
- ANSWER: D
19. If a company moves from a "conservative" working capital policy to an "aggressive" policy, it should expect _____.
- A. liquidity to decrease, whereas expected profitability would increase
 - B. expected profitability to increase, whereas risk would decrease
 - C. liquidity would increase, whereas risk would also increase
 - D. risk and profitability to decrease
- ANSWER: A
20. Which of the following types of company will have the lowest level of investment in working capital to finance?
- A. Water suppliers
 - B. Supermarkets
 - C. Chemical manufacturers
 - D. Ship builders
 - E. Car manufacturers
- ANSWER: B
21. Which of the following factors does not need to be considered when formulating policies on the level and financing of working capital?
- A. The attitude to risk of a company's managers
 - B. The relative cost of short-term and long-term finance
 - C. The availability of revenue reserves and capital reserves
 - D. Terms of trade offered by competitors
 - E. The nature of current business operations
- ANSWER: C

22. Which of the following statements relating to working capital financing is not correct?
- A. An aggressive policy uses long-term debt to finance fluctuating current assets
 - B. Long-term debt is less risky than short-term debt
 - C. A conservative policy uses long-term debt to finance fixed assets
 - D. Short-term debt is cheaper than long-term debt
 - E. The matching principle indicates that fluctuating current assets should be financed by short-term debt

ANSWER: A

23. Identify the incorrect statement in connection with working capital management.
- A. Long-term funds are more expensive than short-term funds but also riskier
 - B. The objectives of working capital management are profitability and liquidity
 - C. Permanent current assets should be financed from long-term sources if a moderate or matching policy is adopted
 - D. Conservative financing policies use short-term funds to finance only part of fluctuating current assets
 - E. Aggressive financing policies increase profitability at the cost of higher risk

ANSWER: A

24. Which of the following will improve a company's working capital management position?
- A. An increased level of bad debts
 - B. An increase in the credit period allowed by suppliers
 - C. An increased debtor collection period
 - D. An increase in the stock turnover period
 - E. An increase in the length of the production process

ANSWER: B

25. Identify which technique will not help a company to optimise its working capital cycle.
- A. Offering discounts for early payment by debtors
 - B. Using cash management models to optimise the level of cash held
 - C. Taking full advantage of credit offered by trade suppliers
 - D. Applying the economic order quantity model to stock management
 - E. Adopting the use of just-in-time stock management methods

ANSWER: B

26. Net working capital refers to
- A. total assets minus fixed assets
 - B. current assets minus current liabilities
 - C. current assets minus inventories
 - D. current assets

ANSWER: B

- 27 Permanent working capital
- A. varies with seasonal needs
 - B. includes fixed assets
 - C. is the amount of current assets required to meet a firm's long-term minimum needs
 - D. includes accounts payable

ANSWER: C

- 28 Dividend Payout ratio is:
- A. PAT / Capital
 - B. DPS / EPS
 - C. Pref. Dividend / PAT
 - D. Pref. Dividend / Equity Dividend

ANSWER: B

- 29 Dividend Distribution Tax is payable by:
- A. Shareholders to Government
 - B. Shareholders to Company
 - C. Company to Government
 - D. Holding to Subsidiary Company

ANSWER: C

- 30 Which of the following stresses on investor's preference for current dividend than higher future capital gains?
- A. Walter's Model
 - B. Residual's Theory
 - C. Gordon's Model
 - D. MM Model

ANSWER: C

- 31 MM Model of Dividend irrelevance uses arbitrage between:
- A. Dividend and Bonus
 - B. Dividend and Capital Issue
 - C. Profit and Investment
 - D. None of the above

ANSWER: B

- 32 If $K_e = r$, then under Walter's Model, which of the following is irrelevant?
- A. Earning per share
 - B. Dividend per share
 - C. DP Ratio
 - D. None of the above

ANSWER: C

- 33 Walter's Model suggests that a firm can always increase the value of the share by:
- A. Increasing dividend
 - B. Decreasing dividend
 - C. Constant Dividend
 - D. None of the above

ANSWER: D

- 34 Bird in hand' argument is given by
- A. Walter's Model
 - B. Gordon's Model
 - C. MM Model
 - D. Residual's Theory

ANSWER: B

- 35 Residuals theory argues that dividend is a :
- A. Relevant Decision
 - B. Active Decision
 - C. Passive Decision
 - D. Irrelevant Decision

ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

- 1 Write short note on over- trading and under- trading.
- 2 Write short notes on Concept of value of the firm.
- 3 Elaborate the impacts of inadequate working capital.
- 4 Provide the basic assumptions of Working Capital Management.
- 5 Is there any relationship between Dividend of Firm and Value of Firm.
- 6 Define working capital.
- 7 Explain how working capital management policies affect the profitability, liquidity and structural health.
- 8 Explain Gross and Net concepts of Working Capital.
- 9 What are the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividends?
- 10 Write short note on Walter Model.
- 11 Distinguish between permanent and temporary working capital.
- 12 Briefly explain working capital term loan.
- 13 Explain the concept of working capital cycle.
- 14 Write notes on different types of Working Capital.
- 15 Explain Walter's Approach to dividend policy
- 16 Write short note on Gordon's dividend policy.
- 17 State the assumptions of MM approach.
- 18 Write the shortcomings of Walter's Model.
- 19 What is permanent working capital
- 20 What is temporary working capital.
- 21 What are the essentials of Walter's dividend model? Explain its shortcomings.

- 22 Dividend policy affects the value of the firm under Gordon's Model. Explain.
- 23 State the reasons that make working capital management as an important function of the financial manager.
- 24 State the assumptions of MM approach.
- 25 Write the shortcomings of Walter's Model.
- 26 What are the essentials of Walter's dividend model? Explain its shortcomings.
- 27 "Walter's and Gordon's models are essentially based on the same assumptions. Thus, there is no basic difference between the two models." Do you agree or not? Why?
- 28 "The contention that dividends have an impact on the share price has been characterized as the bird-in-the-hand argument." Explain the essential of this argument. Why this argument is considered fallacious?
- 29 'The primary purpose for which a firm exists is the payment of dividend. Therefore, irrespective of the firm's needs and the desires of shareholders, a firm should follow a policy of very high dividend payout! Do you agree? Why or why not?
- 30 Dividend policy affects the value of the firm under Gordon's Model. Explain.

III LONG ANSWER TYPE QUESTION:

- 1 Explain the importance of working capital in attaining the profit objective of an organization. Explain how working capital needs are assessed.
- 2 What do you understand by management of working capital and what are the constraints in the management of working capital?
- 3 What is working capital management? Bring out the role of various constituents of working capital.
- 4 What is meant by working capital management? What are the determinants of working capital needs of an enterprise?
- 5 Explain the concept of Working Capital. How should it be determined and financed?
- 6 "Efficiency Working Capital Management is reflected in the liquidity and profitability of the firm". Explain.
- 7 Define Working capital. Distinguish between permanent and temporary working capital.
- 8 Explain how working capital management policies affect the profitability, liquidity and structural health.
- 9 What are the objectives of a credit policy? What is an optimum credit policy? Discuss.
- 10 What is meant by working capital? What are the techniques used for analysis working capital of the company? Explain by giving suitable examples.
- 11 Explain various determinants of working capital of a concern.
- 12 How are the objectives of inventory management and cash management similar?
- 13 Explain the importance of proper planning and control of working capital in a large manufacturing concern and the techniques that are used for planning and control of working capital.
- 14 What is meant by 'Operating Cycle Concept' in management of working capital?
- 15 Working capital is the life blood of a business firm and there is always an operating cycle involved in the cash to cash cycle. Draw up an operating cycle for industry. List out the individual components of the cycle and illustrate with example the computation of the operating cycle components and determination of the total cycle time.

- 16 Determine the operating cycle time of a manufactured product you are familiar with to enable the forecasting of working capital requirements fairly, quickly and accurately.
- 17 Bring out the various methods through which working capital requirements be reasonably forecasted.
- 18 How would you assess the working capital requirements for a seasonal industry? Illustrate with an example.
- 19 What is conservative approach to working capital financing?
- 20 Dividend policy affects the value of the firm under Gordon's Model. Explain.
- 21 Explain with suitable example the arbitrage process of MM approach to achieve the equilibrium level.
- 22 Following are the details regarding three companies:

A Ltd.	B Ltd.	C Ltd.
r = 15%	r = 10%	r = 8%
k = 10%	k = 10%	k = 10%
E = Rs. 10	E = Rs. 10	E = Rs. 10

You are required to calculate the effect of dividend payment on the profits of each of the above companies under the following different situations:

- When no dividend is paid;
- When dividend is paid at Rs. 4 per share;
- When dividend is paid at Rs. 8 per share;
- When dividend is paid at Rs. 10 per share.

Ans.

A Ltd. : (A) Rs. 150 (b) Rs. 130; (c) Rs.110 (d) Rs. 100

B Ltd. : (A) Rs. 100 (b) Rs. 100 (c) Rs. 100 (d) Rs. 100

C Ltd. : (A) Rs. 80 (b) Rs. 88 (c) Rs. 96 (d) Rs. 100

- 23 X company earns Rs. 5 per share, is capitalized at a rate of 10% and has a rate of return on investment at 18%. According to Walter's formula, what should be the price per share at 25% dividend pay out ratio? Is this the optimum pay out ratio according to Walter?

Ans. Rs. 80. This is not the optimum dividend pay out ratio, since Walter suggests a zero per cent dividend pay out ratio in situations where $r > k$.

- 24 (A) The Apex Company' which earns Rs. 5 per share, is capitalized at 10% and has a return on investment of 12%. Using Walter's dividend policy model, determine (i) the optimum pay our, and (ii) the price of share at this pay out.

- (b) The Agro-Chemicals Company belongs to a risk class for which the appropriate capitalization is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if a dividend is not declared? What will it be if one is declared? Answer these on the basis of Modigliani and Miller model and assume no taxes.

Ans. (A) (i) Zero per cent; (ii) Rs. 60; (b) (i) Rs. 135, (ii) Rs. 110

25 The earning per share of a company is Rs. 16. The market capitalization rate applicable to the company is 12.5%. Retained earnings can be employed to yield a return of 10%. The company is considering a pay out of (A) 25%, (b) 50% and (c) 75%. Which of these would maximize the wealth of shareholders as per Walter's model?

Ans. (A) Rs. 108.80, (b) Rs. 115.20, (c) Rs. 121.60

26 Details regarding three companies are given below:

A Ltd.	B Ltd.	C Ltd.
$r = 15\%$	$r = 10\%$	$r = 8\%$
$k_e = 10\%$	$k_e = 10\%$	$k_e = 10\%$
E = Rs. 10	E = RS. 10	E = Rs. 10

By using Walter's Model, you are required to Calculate the value of an equity share of each of these companies when dividend pay out ratio is (A) 20%, (b) 50%, (c) 0% and (d) 100%. Comment on the result drawn.

Ans. (i) Value of an equity share:

	<i>A Ltd.</i>	<i>B Ltd.</i>	<i>C Ltd.</i>
(A)	Rs. 140	Rs. 100	Rs. 84
(b)	Rs. 125	Rs. 100	Rs. 90
(c)	Rs. 150	Rs. 100	Rs. 80
(d)	Rs. 100	Rs. 100	Rs. 100

(ii) Company A is a growth firm, Company B is a normal firm and Company C is a declining firm.

27 The following information is available in respect of a firm:

Capitalisation rate = 0.12, EPS = Rs 15

Assumed rate of return on investment (A)15%(b)8%(c)10%

Show the effect of dividend policy on market price of share assuming pay out ratio (A)0% (b)25% (c)50% (d)75% and (e)100% using Walter Model

29 The annual cash requirement of A ltd. is Rs. 10 lakhs. The company has marketable securities in lot sizes of Rs. 50,000, Rs. 1,00,000, Rs. 2,00,000 Rs. 2,50,000 and Rs. 5,00,000. Cost of conversion of marketable securities per lot is Rs. 1000. The company can earn 5% annual yield on its securities. You are required to prepare a table indicating which lot size will have to be sold by the company. Also show the economic lot size which can be obtained by Baumol Model.

Ans. Economic lot size = 2,00,000

30 Accurate Ltd. has planned to sell 6,00,000 units of output in the coming year. The cost structure of the company's product for the desired level of production is given below:

	Cost per units (Rs.)
Raw material	30
Manufacturing expenses	10
Other overheads	25
Total cost	65

Selling price	80
Profit	15

Examination of past trend levels:

- (a) Raw materials are held in stock for 1 month.
- (b) Work-in-progress inventory is equal to half month's production.
- (c) Finish goods remain in the warehouse for a month.
- (d) Three month's credit is allowed to the debtors.
- (e) Manufacturing expenses are expected to occur evenly during the year.

You are required to –

- (i) Calculate the investment in various current assets.
- (ii) Estimate the gross working capital requirement if the desired cash balance is 5% of gross working capital.

Ans: Gross Working Capital 165,13,157.89

- 31 What are the assumptions which underlie Gordon's model of dividend effect? Does dividend policy affect the value of the firm under Gordon's model?
- 32 "Walter's and Gordon's models are essentially based on the same assumptions. Thus, there is no basic difference between the two models." Do you agree or not? Why?
- 33 "The contention that dividends have an impact on the share price has been characterized as the bird-in-the-hand argument." Explain the essential of this argument. Why this argument is considered fallacious?
- 34 'The primary purpose for which a firm exists is the payment of dividend. Therefore, irrespective of the firm's needs and the desires of shareholders, a firm should follow a policy of very high dividend payout! Do you agree? Why or why not?
- 35 What are the assumptions which underlie Gordon's model of dividend effect? Does dividend policy affect the value of the firm under Gordon's model?

QUESTION BANK

AUDITING

B.COM (HONS) - 204

UNIT – I

I MULTIPLE CHOICE QUESTIONS :

1. The main object of an audit is ____
 - A. Expression of opinion
 - B. Detection and Prevention of fraud and error
 - C. Both (a) and (b)
 - D. Depends on the type of auditANSWER C

2. The title of AAS2 issued by Council of ICAI is ____
 - A. Objective and Scope of the Financial Statements
 - B. Objective and Scope of the Audit of Financial Statements
 - C. Objective and Scope of Business of an Entity
 - D. Objective and Scope of Financial Statements AuditANSWER: B

3. Which of the following is not true about opinion on financial statements?
 - A. The auditor should express an opinion on financial statements.
 - B. His opinion is a guarantee of excellent future performance of business.
 - C. He is responsible for detection and prevention of frauds and errors in financial statements.
 - D. He should examine whether recognized accounting principle have been consistently followed.ANSWER: C

4. A sale of Rs. 50,000 to A was entered as a sale to B. This is an example of _
 - A. Error of omission
 - B. Error of commission
 - C. Compensating error
 - D. Error of principleANSWER: B

5. 'Goods sent on approval basis' have been recorded as 'Credit sales'. This is an example of ____
 - A. Error of principle
 - B. Error of commission
 - C. Error of omission
 - D. Error of duplicationANSWER: A

6. Which of the following statements is not true?
 - A. Management fraud is more difficult to detect than employee fraud
 - B. Internal control system reduces the possibility of occurrence of employee fraud

and management fraud

C The auditor's responsibility for detection and prevention of errors and frauds is similar.

D All statements are correct.

ANSWER: B

7. As per Accounting standards if auditor detects an error then –

A He should inform the management.

B He should communicate it to the management if it is material

C The auditor should ensure financial statements are adjusted for detected errors.

D Both (b) and (c)

ANSWER: D

8. Which of the following is not a limitation of audit?

A Objectivity of auditor's judgment

B Selective testing

C Persuasiveness of evidence

D Limitations of internal control system

ANSWER: A

9. Both auditing and accounting are concerned with financial statements. Which of the following is true?

A Auditing uses the theory of evidence to verify the financial information made available by Accountancy

B Auditing lends credibility dimension and quality dimension to the financial statements prepared by the accountant.

C Auditor should have through knowledge of accounting concepts and convention to enable him to express an opinion on financial statements

D All of the above.

ANSWER: B

10. The risk of management fraud increases in the presence of:

A Frequent change in supplies

B Improved internal control system

C Substantial increases in sales

D Management incentive system based on sales done in a quarter

ANSWER: D

11. Which of the following factors likely to be identified as a fraud factor by the auditor?

A The company is planning an initial public offer of quality shares to raise additional capital for expansion.

B Bank reconciliation statement includes deposits in transit.

C Plant and machinery is sold at a loss.

D The company has made political contributions.

ANSWER: A

12. The most difficult type of misstatement to detect fraud is based on:
A Related party purchases
B Related party sales
C The restatement of sales
D Omission of a sales transaction from being recorded.
ANSWER: D
13. Which of the following statements is correct concerning the required documentation in working papers of fraud risk assessment undertaken by the auditor?
A All risk factors as mentioned in accounting standards should be considered and documented along with response to them.
B Document the identification of fraud risk factors along with response to them.
C Document material fraud, risk factors and response to them.
D No documentation in required.
ANSWER: B
14. Which of the following is the most appropriate potential reaction of the auditor to his assessment that the risk of material misstatement due to fraud is high in relation to existence of inventory?
A Visit location on surprise basis to observe test counts
B Request inventory count at a date close to yearend
C Vouch goods sent on approval very carefully
D Perform analytical procedures.
ANSWER: A
15. Which of the following is not likely to be a fraud risk factor relating to management's characteristics?
A. Tax evasion
B. Failure to correct known weakness in internal control system
C. Adoption of conservative accounting principles
D. High management turnover
ANSWER: C
16. Which of the following is not a quality control consideration on accepting a new client?
A. Availability of audit assistants with necessary skill and competence.
B. Provision of other services to the client which may impair independence
C. Predecessor auditor's advice as to whether audit fees were paid promptly
D. Review of audit work done by one partner by the other
ANSWER; C
17. An auditor obtains knowledge about a new client's business and its industry to
A Make constructive suggestions concerning improvements to the client's internal control system.
B Evaluate the appropriateness of audit evidence obtained
C Understand the events and transactions that may have an effect on client's financial statements.
D All of the above
ANSWER: C

18. Audit of banks is an example of –
A Statutory audit
B Balance sheet audit
C Concurrent audit
D Both (a) and (b)
E All of the above
ANSWER: E
19. Concurrent audit is a part of
A Internal check system
B Continuous audit
C Internal audit system
D None
ANSWER: C
20. In India, balance sheet audit is synonymous to
A Annual audit
B Continuous audit
C Detailed audit
D Statutory audit
ANSWER: A
21. In comparison to the independent auditor, an internal auditor is more likely to be concerned with
A cost accounting system
B internal control system
C legal compliance
D accounting system
ANSWER: B
22. When an independent auditor decides that the work performed by internal auditors may have bearing on the nature, timing and extent of planned audit procedures, the independent auditor should evaluate objectivity of the internal auditor. The most important factor influencing it would be
A organizational level to which he reports
B qualification of internal auditor
C system of quality control of his work
D all of the above
ANSWER: A
23. When an independent auditor relies on the work of an internal auditor, he or she should
A examine the scope of internal auditor's work
B examine the system of supervising review and documentation of internal auditor's work
C adequacy of related audit programme
D all the above
ANSWER: D

24. Audit in depth is synonymous for

- A Complete audit
- B Completed audit
- C Final audit
- D Detailed audit

ANSWER: D

25. Which of the following statements is not true about continuous audit?

- A It is conducted at regular interval.
- B It may be carried out on daily basis.
- C It is needed when the organization has a good internal control system.
- D It is expensive.

ANSWER: C

26. Which of the following statements is not true

- A. Management fraud is more difficult to detect than employee fraud
- B. Internal control system reduces the possibility of occurrence of employee fraud and management fraud
- C. The auditor's responsibility for detection and prevention of errors and frauds is similar.
- D. All statements are correct.

ANSWER: B

27. Both auditing and accounting are concerned with financial statements. Which of the following

- A. Auditing uses the theory of evidence to verify the financial information made available by Accountancy
- B. Auditing lends credibility dimension and quality dimension to the financial statements prepared by the accountant
- C. Auditor should have through knowledge of accounting concepts and convention to enable him to express an opinion on financial statements
- D. All of the above.

ANSWER: B

28. Auditing is compulsory for

- A. Small scale business
- B. Partnership firms
- C. Joint stock Companies
- D. Proprietary Concerns

ANSWER: C

29. The fundamental objective of the audit of a company is to

- A. Protect the interests of the minority shareholders
- B. Detect and prevent errors and fraud
- C. Assess the effectiveness of the company's performance

D. Attest to the credibility of the company's accounts

ANSWER: D

30. Why do auditors concentrate their efforts on material items in accounts?

A. Because they are easier to audit

B. Because it reduces the audit time

C. Because the risk to the accounts of their being incorrectly stated is greater

D. Because the directors have asked for it

ANSWER: C

31. The term 'Audit' is derived from a Latin word "audire" which means _____?

A. To inspect

B. To examine

C. To hear

D. To investigate

ANSWER: C

32. Why do auditors concentrate their efforts on material items in accounts?

A. Because they are easier to audit

B. Because it reduces the audit time

C. Because the risk to the accounts of their being incorrectly stated is greater

D. Because the directors have asked for it

ANSWER: C

33. The independent auditor's primary responsibility is to:

A. the directors

B. the company's creditors (payables)

C. the company's bank

D. the shareholders

ANSWER: D

34. Which one of the following is NOT a duty of the auditor?

A. Duty to report to the company's bankers

B. Duty to report to the members

C. Duty to sign the audit report

D. Duty to report on any violation of law

ANSWER: A

35. The concept of stewardship means that a company's directors

A. Are responsible for ensuring that the company complies with the law

B. Are responsible for ensuring that the company pays its tax by the due date

C. Safeguard the company's assets and manage them on behalf of shareholders

D. Report suspected fraud and money laundering to the authorities

ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

1. Define auditing.
2. Define auditor.
3. State any two objectives of auditing.
4. State some advantages of auditing.
5. Write a short note on principles of auditing.
6. Write a short note on window dressing.
7. What is government audit?
8. What do you mean by statutory audit?
9. What do you understand by tax audit?
10. What is management audit?
11. What do you mean by cost audit?
12. What is internal audit?
13. State any two differences between internal check and internal auditing.
14. State any two advantages of management accounting.
15. Write a short note on principles of auditing.
16. Briefly explain the different types of frauds?
17. State major differences between auditing and accounts.
18. Distinguish between internal audit and independent audit.
19. Briefly state the advantages and disadvantages of interim audit?
20. Distinguish between continuous audit and internal audit?
21. Distinguish between internal and external audit?
22. Write a short note on final or completed audit.
23. What do you understand by a balance sheet audit?
24. Distinguish between periodical audit and balance sheet audit.
25. Comment on the statement “An environmental auditor should have varied knowledge.”
Comment.
26. Advise a few special points in a social audit.
27. State the basic principles of Auditing?
28. Write a short note on the significance of the term True and Fair View.
29. “An Auditor is not an insurer” Explain.
30. “An Auditor is not an accountant” Explain.

I. LONG ANSWER TYPE QUESTIONS:

1. What do you understand by auditing? Explain its objectives.
2. Explain the differences between auditing standards and audit procedures.
3. “The main objective of an audit is to express an opinion on the truth and fairness of the accounts.” Critically evaluate this statement.
4. Elucidate what is the importance of having the accounts audited by an independent professional auditor.
5. Accountancy begins where book-keeping ends and auditing begins where accountancy ends. Explain.
6. What are the various types of fraud in connection with accounts?

7. Distinguish between accounting and auditing.
8. Discuss the general qualities of an auditor.
9. What is the auditor's duty with regard to detection of frauds? Cite legal cases in support of your Answer.
10. What is the importance of having the accounts audited by an independent professional auditor? Explain.
11. Although accounting and auditing are related, they are distinct from each other. Explain.
12. "Auditing is a necessity while auditing is a luxury for a business enterprise. Do you agree? Give reasons in support of your Answer.
13. Describe the various errors and frauds.
14. Is the auditor expected to detect all errors and frauds in accounting? Explain
15. Distinguish between internal audit and independent audit in detail.
16. An auditor is a watchdog and not a bloodhound. Comment on this statement and explain it.
17. Internal audit has become an important managerial tool. Critically examine this statement.
18. Internal audit is not a substitute for audit check. Comment on this statement.
19. Write a detailed note on internal check system for wages and salaries.
20. Internal check is a built-in-check in accounting process itself.
21. Distinguish between internal audit and audit control in detail.
22. Explain the various objectives of internal control in detail.
23. What points should be considered while framing system of internal check?
24. Write a detailed note on the factors responsible for the growing importance of an audit check.
25. Write a detailed note on "Role of an auditor in the context of an audit committee."
26. What is auditing? Why is it necessary to inspect the accounts of a business? How does Auditing help in direction and prevention of accounting errors and frauds?
27. What is internal Audit? How does it supplement the main audit? State the features of strong internal control system?
28. 'Detection and presentation of errors and frauds are the main objects of Auditing.' Discuss.
29. What is meant by Balance sheet audit? How is it conducted? Discuss the position of auditor in connection with balance sheet audit.
30. Internal audit is not a substitute for statutory audit. Explain.

UNIT-II

I MULTIPLE CHOICE QUESTIONS :

1. Auditing standards differ from audit procedures in that procedures relate to
 - A Audit assumptions
 - B acts to be performed
 - C quality criterion
 - D methods of work
 ANSWER: B

2. Analytical procedures issued in the planning stage of an audit, generally
- A helps to determine the nature, timing and extent of other audit procedures
 - B directs attention to potential risk areas
 - C indicates important aspects of business
 - D All of the above

ANSWER: D

3. Which of the following statements is most closely associated with analytical procedure applied at substantive stage?
- A It helps to study relationship among balance sheet accounts
 - B It helps to discover material misstatements in the financial statements
 - C It helps to identify possible oversights
 - D It helps to accumulate evidence supporting the validity of a specific account balance

ANSWER D

4. For all audits of financial statements made in accordance with AAS14, the use of analytical procedures is at the discretion of the auditor in which stage?
- A Substantive testing
 - B Planning stage
 - C Overall review stage
 - D All of the above

ANSWER: A

5. The basic assumption underlying the use of analytical procedures is:
- A It helps the auditor to study relationship among elements of financial information
 - B Relationship among data exist and continue in the absence of known condition to the contrary
 - C Analytical procedures will not be able to detect unusual relationships
 - D None of the above.

ANSWER: B

6. Of the following, which is the least persuasive type of audit evidence?
- A Bank statements obtained from the client
 - B Documents obtained by auditor from third parties directly
 - C Carbon copies of sales invoices inspected by the auditor
 - D Computations made by the auditor

ANSWER C

7. Of the following, which is the least persuasive type of audit evidence?
- A Bank statements obtained from the client
 - B Documents obtained by auditor from third parties directly
 - C Carbon copies of sales invoices inspected by the auditor
 - D Computations made by the auditor

ANSWER C

8. Which of the following statements is, generally, correct about the reliability of audit evidence?

- A To be reliable, evidence should conclusive rather than persuasive
- B Effective internal control system provides reliable audit evidence
- C Evidence obtained from outside sources routed through the client
- D All are correct.

ANSWER B

9. In an audit of financial statements, substantive tests are audit procedures that _____

- A may be eliminated for an account balance under certain conditions
- B are designed to discover significant subsequent events
- C will increase proportionately when the auditor decreases the assessed level of control risk
- D may be test of transactions, test of balance and analytical procedures

ANSWER D

10. The nature, timing and extent of substantive procedures is related to assessed level of control risk

- A randomly
- B disproportionately
- C directly
- D inversely

ANSWER C

11. Which of the following factors is most important in determining the appropriations of audit evidence?

- A The reliability of audit evidence and its relevance in meeting the audit objective
- B the objectivity and integrity of the auditor
- C The quantity of audit evidence
- D The independence of the source of evidence

ANSWER A

12. When is evidential matter, generally, considered sufficient?

- A When it constitutes entire population
- B when it is enough to provide a basis for giving reasonable assurance regarding truthfulness
- C When it is objective and relevant
- D when auditor collects and evaluates it independently

ANSWER B

13. Which of the following is not corroborative evidence?

- A Minutes of meetings
- B Confirmations from debtors
- C Information gathered by auditor through observation
- D Worksheet supporting consolidated financial statements

ANSWER D

14. What would most appropriately describe the risk of incorrect rejection in terms of substantive testing?
- A The auditor concludes balance is materially correct when in actual fact it is not
 - B The auditor concludes that the balance is materially misstated when in actual fact it not
 - C The auditor has rejected an item for sample which was material
 - D None of the above

ANSWER B

15. Which of the following affects audit effectiveness?
- A Risk of over reliance
 - B Risk of incorrect rejection
 - C Risk of incorrect acceptance
 - D Both (a) and (c)

ANSWER D

16. What would most effectively describe the risk of incorrect acceptance in terms of substantive audit testing?
- A The auditor has ascertained that the balance is materially correct when in actual fact it is not
 - B The auditor concludes the balance is materially misstated when in actual fact is not
 - C The auditor has rejected an item from sample which was not supported by documentary evidence
 - D He applies random sampling on data which is inaccurate and inconsistent

ANSWER A

17. Audit programme is prepared by
- A the auditor
 - B the client
 - C the audit assistants
 - D the auditor and his audit assistants

ANSWER D

18. The working papers which auditor prepares for financial statements audit are _ _ _ _.
- A Evidence for audit conclusions
 - B owned by the client
 - C owned by the auditor
 - D retained in auditor's office until a change in auditors

ANSWER C

19. The quantity of audit working papers compiled on engagement would most be affected by
- A management's integrity
 - B auditor's experience and professional judgment
 - C auditor's qualification

D control risk
ANSWER B

20. Which of the following best describes the primary purpose of audit programme preparation?
- A To detect errors or fraud.
 - B To comply with GAAP
 - C To gather sufficient appropriate evidence
 - D To assess audit risk

ANSWER: C

21. Which of the following is not an advantage of the preparation of working paper?
- A To provide a basis for review of audit work
 - B To provide a basis for subsequent audits
 - C To ensure audit work is being carried out as per programme
 - D To provide a guide for advising another client on similar issues

ANSWER: D

22. The auditor's permanent working paper file should not normally, include
- A extracts from client's bank statements
 - B past year's financial statements
 - C attorney's letters
 - D debt agreements

ANSWER A

23. For what minimum period should audit working papers be retained by audit firm?
- A For the time period the entity remains a client of the audit firm.
 - B For a period of ten years
 - C For a period auditor opines them to be useful in servicing the client
 - D For the period the audit firm is in existence.

ANSWER C

24. Which of the following factors would least likely affect the quantity and content of an auditor's working papers?
- A the assessed level of control risk
 - B The possibility of peer review
 - C The nature of auditor's report
 - D The content of management representation letter

ANSWER D

25. Which of the following statement is true regarding an auditor's working papers?
- A They document the level of independence maintained by the auditor
 - B They should be considered as the principle support for the auditor's report
 - C They should not contain details regarding weaknesses in the internal control system
 - D They help the auditor to monitor the effectiveness of the audit firm's quality control

ANSWER B

26. Which one of the following is NOT considered to be part of planning?
- A. Background i.e. industry
 - B. Previous year's audit i.e. any qualifications in the report
 - C. Considering the work to be done by the client staff e.g. internal audit
 - D. Considering whether the financial statements show a true and fair view
- ANSWER: D
27. Which should NOT be considered at the planning stage?
- A. The timing of the audit
 - B. Analytical review
 - C. Last year's written representation letter
 - D. Obtaining written representations
- ANSWER: B
28. At the planning stage you would NOT consider:
- A. the timing of the audit
 - B. whether corrections from the inventory count have been implemented
 - C. last year's audit
 - D. the potential use of internal audit
- ANSWER: B
29. Which of the following is NOT an accepted method of selection in sampling?
- A. Systematic selection
 - B. Pervasive selection
 - C. Random selection
 - D. Haphazard selection
- ANSWER: B
30. Which of the following are you unlikely to see in the current file of auditors' working papers?
- A. Memorandum & articles of association
 - B. Audit planning memorandum
 - C. Summary of unadjusted errors
 - D. Details of the work done on the inventory count
- ANSWER: B
31. According to ISA 500, the strength of audit evidence is determined by which two qualities?
- A. Appropriateness & competence
 - B. Sufficiency & appropriateness
 - C. Reliability & extensiveness
 - D. Objectivity & independence
- ANSWER: B

32. Which of the following is normally the most reliable source of audit evidence?
- A. Internal audit
 - B. Suppliers' statements
 - C. Board minutes
 - D. Analytical review
- ANSWER: B
33. Which of the following is one of the procedures in the audit acceptance phase?
- A. Investigate legal information.
 - B. Prepare the audit programme.
 - C. Determine need for other professionals.
 - D. Perform audit procedures to understand the entity and its environment.
- ANSWER: C
34. A preliminary examination of both new and existing clients includes all the following procedures except:
- A. Accessing public news and public information.
 - B. Assess risk and set materiality.
 - C. Visiting their premises.
 - D. Having discussions with the client's management and staff.
- ANSWER: B
35. In cases when a new auditor will replace an existing auditor, the code of ethics advises the new auditor to:
- A. Report the change to the SEC.
 - B. Present a change of auditor plan to the audit client.
 - C. Communicate with the existing accountant.
 - D. Communicate with the audit committee.
- ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

1. What do you mean by audit programme?
2. What are the various kinds of audit programmes. Explain them in brief.
3. What do you mean by fixed audit programme?
4. What do you understand by flexible audit programmer?
5. What do you mean by audit working papers?
6. State any two purposes of audit working papers.
7. Explain audit working papers and audit files as vital tools of an audit working papers.
8. What do you understand by an audit notebook?
9. What are the contents included in an audit file? Explain in brief.
10. Explain in brief the audit process.
11. Write a short note on audit programme.
12. Write a short note on audit notebook.
13. What do you understand by an audit process?
14. What is an audit file?
15. How does an audit paper differ from a working paper?

16. What do you understand by auditing evidence?
17. Explain the nature of audit-in-depth.
18. What is test checking?
19. Explain compliance procedures.
20. What are the various features of test checking?
21. Explain briefly substantive testing.
22. What is meant by routine checking?
23. Distinguish between test check and internal check.
24. Describe an auditor's duty with respect to test checking.
25. Explain the concept of selective verification.
26. What do you mean by audit engagement?
27. Why are distinctive tick marks used in an audit?
28. What do you mean by test checking?
29. What do you mean by auditing in depth?
30. What do you mean by cut off technique?

III LONG ANSWER TYPE QUESTIONS:

1. Audit programme is a useful tool of planning and control of audit work better. Comment.
2. What is an audit programme? What are its various merits and demerits? Explain.
3. Explain the steps that an auditor should take before commencement of a new audit.
4. How should an audit programme be constructed ? Explain in detail.
5. What are the various advantages and disadvantages of an audit programme. Explain in detail.
6. Explain the various objectives of working papers.
7. Explain the various contents of working papers.
8. Why should audit papers be carefully preserved by auditor ?
9. State the various functions of audit working papers.
10. Explain the essentials and objects of audit working papers?
11. How do audit working papers help auditors in their work ? Explain.
12. Give the various essential of a good audit programme.
13. Distinguish between permanent audit files and current audit files.
14. Explain why auditing papers should be carefully preserved by the auditor ?
15. Explain the concept of ownership of working papers relating to audit.
16. Can an auditor refuse to change his audit programme during the course of an audit, even if advised by his assistant ?
17. The auditors of XYZ Co. Ltd. Are being insisted upon by the management to hand over the original working papers of the audit to them, The auditor refused. Comment.
18. State the functions of audit papers as per SA 230.
19. What is the liability of an auditor if he relies on test check ?
20. Write à detailed note on 'Reliability of an auditing evidence.'
21. Distinguish between compliance procedures and substantive procedures.
22. Distinguish between inspection and observation.
23. Distinguish between routine checking and test checking.
24. Distinguish between internal evidence and external evidence.

25. What precautions should be applied by an auditor while applying the technique of test checking ?
26. “An adequate planning benefits the audit of financial statements”. Discuss
27. Audit documents provides evidence of the auditor’s basis for a conclusion about the achievement of overall objectives of the auditor. Explain clearly the nature and importance of Audit Documentation.
28. Write some circumstances of conflicting or missing evidence that indicate the possibility of fraud.
29. What is audit file ? What are the contents of audit file ?
30. What is an audit note book ? What purpose does it serve ? What are the contents of audit note book ?

UNIT-III

I MULTIPLE CHOICE QUESTIONS:

1. Proper segregation of duties reduces the opportunities in which a person would both
 - A establish controls and executes them
 - B records cash receipts and cash payments
 - C perpetuate errors and frauds and conceals them
 - D record the transaction in journal and ledger.
 ANSWER C

2. The Delhi Government had constructed six bungalows for its ministers. They are lying unoccupied for last three years. This would be a matter of concern for
 - A Propriety Auditor
 - B Performance Auditor
 - C Financial Auditor
 - D None of the above
 ANSWER D

3. Balance sheet does not include
 - A Verification of assets and liabilities
 - B vouching of income and expense accounts related to assets and liabilities
 - C Examination of adjusting and closing entries
 - D Routine checks
 ANSWER D

4. What is the primary objective of analytical procedures used in the overall review stage of an audit?
 - A To help to corroborate the conclusions drawn from individual components of financial statements
 - B To reduce specific detection risk
 - C To direct attention to potential risk areas
 - D To satisfy doubts when questions arise about a client’s ability to continue
 ANSWER A

5. Who is responsible for the appointment of statutory auditor of a limited company ?
 A Directors of the company
 B Members of the company
 C The Central Government
 D All of the above
 ANSWER B
6. Which of the following statement is not true?
 A A partnership firm can be appointed as a statutory auditor of limited company
 B Appointment can be made in the name of the firm
 C Majority of the partners should be practicing in India
 D All partners should be chartered accountants
 ANSWER C
7. As per the requirements of accounting-auditing sections a person is disqualified from being appointed as a statutory auditor if he holds
 A Equity shares or debentures of the company
 B Equity shares carrying voting of the company
 C Shares carrying voting rights of the company
 D Security carrying voting rights of the company
 ANSWER D
8. The board of directors shall appoint first auditor of a company
 A within one month of completion of capital subscription state of the company
 B within one month of the promotion of the company
 C within one month of the commencement of the business of the company
 D within one month of incorporation of the company
 ANSWER D
9. The term of the auditor ship of first auditor would be from the date of appointment till___
 A the conclusion of statutory meeting
 B the conclusion of first annual general meeting
 C the conclusion of next annual general meeting
 D the date of removal
 ANSWER B
10. In case the directions fail to appoint first auditor (s), the shareholders shall appoint them at...by passing a resolution
 A a general meeting
 B first annual general meeting
 C statutory meeting
 D annual general meeting
 ANSWER A

11. Life Insurance Corporation of India holds twenty five percent of subscribed capital of XYZ Ltd. The appointment of statutory auditor in XYZ Ltd. Would be by___
- A ordinary resolution
 - B special resolution
 - C (A) or (B)
 - D none of the above

ANSWER B

12. ICICI prudential, a life insurance company, holds thirty two percent of subscribed share capital of Delta Ltd. The statutory auditor of Delta Ltd. would be appointed by___
- A ordinary resolution
 - B Special resolution
 - C either of the above
 - D none

ANSWER A

13. Which of the following statement is not true regarding appointment of statutory auditor by the Central Government?
- A Such powers have been conferred upon it by section 224(3)
 - B If a company fails to appoint an auditor at a general meeting, the company will be stopped from carrying out its operations.
 - C If an auditor refuses to accept appointment, the powers of the Central Government can be exercised.
 - D None of the above

ANSWER B

14. If a casual vacancy in the office of auditor arises by his resignation it should only be filled by the company in a.....
- A Board meeting
 - B extraordinary general meeting
 - C General meeting
 - D annual general meeting

ANSWER C

15. For the purposes of section 224(IB) the number of partners of a firm which shall be taken into account would be as on the date of _
- A completion of audit
 - B auditor's report
 - C acceptance of audit
 - D Starting of audit work

ANSWER C

16. Which of the following is counted for the purposes of section 224(IB) the number of partners of a firm which shall be taken into account would be as on the data of ____
- A Joint audit
 - B Audit to nonprofit companies

- C Audit of unlimited companies
- D All of the above
- E (a) and (b) only

ANSWER E) (a) and (b) only.

17. Mr. Narayan, a Chartered Accountant, has nineteen audits, Out of following audits which audits should he accept to ensure he doesn't violate provisions of section 224(IB) _____
- A Audit of Zeba Ltd. a private company
 - B Audit of branch of Pointec Ltd. a foreign company
 - C Audit of two branches of Virtue Ltd. an Indian company
 - D All of them

ANSWER D

18. Which audit out of the following would not be regarded as one audit for the purposes of section 224(IB)?
- A Audit of one branch each of two different companies
 - B Joint audit
 - C Audit head office & branches
 - D Audit of one or more branches of a company

ANSWER A

19. The auditor of a Government company is appointed by the C & AG. His remuneration is fixed by__
- A the C & AG
 - B the shareholders
 - C the shareholders at an annual general meeting
 - D the board of directors

ANSWER B

20. The authority to remove the first auditor before the expiry of term is with_
- A the shareholders in a general meeting
 - B the shareholders in the first annual General meeting
 - C the board of directors
 - D the Central Government

ANSWER A

21. Which of the following statements is not correct regarding removal of first auditor before expiry of the term?
- A He is removed at a general meeting
 - B The shareholders are authorized to do so
 - C The approval of the Central Government is required for such removal
 - D The provisions for such removal are contained in section 224(7)

ANSWER C

22. The retiring auditor does not have a right to ____
A make written representations
B get his representations circulated.
C Be heard at the meeting
D speak as a member of the company
ANSWER D
23. Professional skepticism requires that the auditor assume that management is
A reasonably honest
B neither honest nor dishonest
C not necessarily honest
D Dishonest unless proved otherwise
ANSWER B
24. Who out of the following cannot be appointed as a statutory auditor of the company?
A Erstwhile director
B Internal auditor
C Relative of a director
D Only (b) and (c)
ANSWER: B
25. A statutory auditor has a right of access at all times to
A Books and accounts of a company
B Books, accounts and documents of the company
C Books, accounts and vouchers of the company
D Notices and documents of the company
ANSWER: C
26. Process of checking the evidence of the entries called
A. Verification
B. Observation
C. Vouching
D. Inspection
ANSWER: C
27. To verify cash transactions, it is necessary
A. System of internal control
B. Check all transaction
C. Documentary evidence for every transaction
D. All of the above.
ANSWER: D
28. Total amount spent for advertisement expenses be verified from the
A. Receipts from the Medias or advertisement agency.
B. Fixed assets register
C. Debtors books

D. None of the above

ANSWER: A

29. Vouching helps the auditors to ascertain whether the entries in the book _____, this is the basic objective of auditing.

A. True and fair

B. Only true

C. Only fair

D. None of the above

ANSWER: A

30. Voucher should be addressed to the _____.

A. Auditor

B. Client

C. Employee

D. None of the above

ANSWER: B

31. Serial number of vouchers should be _____.

A. Colored

B. Continuous.

C. Even number

D. Odd number.

ANSWER: B

32. In case of sales return, the auditor should check.

A. Credit notes and delivery challans.

B. Whether cash has been repaid to the client

C. Purchase invoices and goods received notes.

D. Credit notes and goods received notes

ANSWER: D

33. In order to audit petty cash expenses, the auditor has to check

A. Petty cash register

B. Internal controls

C. Reconciliation of petty cash register and cash book

D. All of the above.

ANSWER: D

34. Checking the date of entry of voucher in the books mainly helps auditor to obtain evidence that:

A. Entry was made on the same day as that of the voucher.

B. Entries are passed on a daily basis

C. The vouchers are filled every day.

D. No vouchers are missing

ANSWER: A

35. While verifying recovery of bad debts, the auditor has to check
- A. Whether the amount was actually written off in some previous year
 - B. The source of income of the debtor
 - C. That the debtor has returned the entire amount written off.
 - D. All of the above

ANSWER: A

II SHORT ANSWER TYPE QUESTIONS :

1. Define a voucher.
2. What are the objectives of vouching?
3. How will you watch cash sales?
4. How will you watch wages?
5. How will you watch rent received?
6. What do you understand by missing vouchers?
7. What are the special considerations which auditor should keep in mind during vouching?
8. Explain the relationship between routine checking and vouching.
9. What are the various types of vouchers?
10. What are the various principles of vouching? Explain them in brief.
11. Describe the importance of vouching.
12. How do you vouch receipt from debtors?
13. What is the difference between vouching and verification?
14. How will you vouch dividend income?
15. How will you watch commission received?
16. What do you mean by routine checking?
17. What do you understand by test checking?
18. Write a short note on appointment of an auditor.
19. Write a short note on disqualifications of an auditor.
20. What are legal provisions for appointment of an auditor?
21. Write a short note on powers of a company auditor.
22. Write a note on the duty to report of an auditor.
23. What is cost audit?
24. Write a note on purpose of cost audit.
25. What is social audit?
26. 'Vouching is the essence of audit' Discuss
27. What is the difference between vouching and routine checking?
28. What are the duties of an auditor regarding missing vouchers?
29. What are the common features of valid vouchers?
30. Is routine checking a part of vouching?

III LONG ANSWER TYPE QUESTIONS :

1. Explain the concept of vouching. What are the various objectives of vouching?
2. What are the various material defects that will disqualify a voucher as such?
3. Outline the procedure for vouching payments for goods purchased.
4. Elucidate and outline the procedure for vouching preliminary expenses.
5. In vouching payments, the auditor does not merely seek proof that money has been paid away. Discuss.
6. What are the special considerations which auditor should keep in mind during vouching?
7. Elucidate and outline the procedure for vouching: - a) Cash Purchases, b) Credit Sales.
8. State general considerations to be borne in mind by the auditor while vouching cash transactions.
9. Elucidate and outline the procedure for vouching: - a) Salaries, b) Payment to creditors.
10. Discuss in detail the various principles to be followed while doing examination of vouchers.
11. "Vouching is the back-bone of auditing." Explain this statement.
12. State the meaning and general principles of vouching.
13. As an auditor how will you vouch cash sales? Explain and outline the entire process.
14. Distinguish between the concepts of vouching and verification.
15. Briefly explain your understanding about the general principles of vouching.
16. Explain the concept of "missing vouchers."
17. Discuss the duty of auditor with regard to vouching.
18. "Vouching is the essence of auditing." Briefly explain your understanding about the general principles of vouching.
19. What are the qualifications of a company auditor? Discuss the provisions of the companies act with regard to this.
20. What are the provisions of the companies Act with regard to removal of auditors.
21. How is a company auditor appointed? Explain in detail the entire process.
22. Discuss the duties of an auditor of a limited company.
23. Discuss the provisions of Companies Act with regard to powers of a company auditor.
24. Discuss the provisions of Companies Act with regard to rights of a company auditor.
25. Discuss the provisions of Companies Act with regard to duties of a company auditor.
26. The Auditor appointed under section 139 was removed from his office before the expiry of his term by an ordinary resolution of the company, comment explaining clearly the procedure of removal of auditor before expiry of term.
27. 'In vouching payments, the auditor does not merely seek proof that money has been paid away' Critically examine the statement.
28. What are the different types of audit reports? Give a specimen of a non qualified audit report?
29. Would any statement or explanation made by the auditor in respect of omission in his report or in the balance sheet relieve him of his liability.
30. Distinguish between auditor's report and certificate. Discuss the factors to be considered while judging materiality at the time of an organization.

UNIT-IV

I MULTIPLE CHOICE QUESTIONS:

1. Which of the following information should a successor auditor obtain during the inquiry of the predecessor auditor before accepting engagement?
- i) Information about integrity of management
 - ii) Disagreement with management concerning auditing procedures
 - iii) Review of internal control system.
 - iv) Organization structure
- A (i) and (ii)
B (ii) and (iii)
C (i), (ii) and (iii)
D i) and (iii).
- ANSWER A

2. An auditor who accepts an audit but does not possess the industry expertise of the business entity should
- A engage experts
 - B obtain knowledge of matters that relate to the nature of entity's business
 - C inform management about it
 - D take help of other auditors
- ANSWER B

3. The least important element in the evaluation of an audit firm's system of quality control would relate to
- A assignment of audit assistants
 - B system of determining audit fees
 - C consultation with experts
 - D confidentiality of client's information
- ANSWER B.

4. Balance sheet audit includes verification of_
- A Assets
 - B Liabilities
 - C Income and expense accounts where appropriate
 - D All of the above
- ANSWER D

5. The primary purpose of establishing quality control policies and procedures for deciding on client evaluation is to
- A ensure adherence to generally accepted auditing standards
 - B acceptance or retention of clients whose management does not lack integrity
 - C ensure audit fees is charged according to the type of audit work assigned
 - D all of the above

ANSWER B

6. The least important element in the evaluation of an audit firm's system of quality control would relate to
- A assignment of audit assistants
 - B system of determining audit fees
 - C consultation with experts
 - D confidentiality of client's information

ANSWER B

7. Which of the following statements is not correct about materiality?
- A Materiality is a relative concept
 - B Materiality judgments involve both quantitative and qualitative judgments
 - C Auditor's consideration of materiality is influenced by the auditor's perception of the needs of an informed decision maker who will rely on the financial statements
 - D At the planning state, the auditor considers materiality at the financial statement level only

ANSWER D

8.the audit risk..... the materiality andthe audit effort.

- A Lower, Higher, Lower
- B Lower, Lower, Higher
- C Higher, Lower, Lower
- D Lower, Higher, Higher

ANSWER A

9. When issuing unqualified opinion, the auditor who evaluates the audit findings should be satisfied that the
- A Amount of known misstatement is documented in working papers
 - B Estimates of the total likely misstatement is less than materiality level
 - C Estimate of the total likely misstatement is more than materiality level
 - D Estimates of the total likely misstatement cannot be made

ANSWER B

10. In determining the level of materiality for an audit, what should not be considered?
- A Prior year's errors
 - B The auditor's remuneration
 - C Adjusted interim financial statements

D Prior year's financial statements
ANSWER B

11. Which of the following is not a fact of EPA?
A Economic audit
B Efficiency audit
C Expenditure audit
D Effectiveness audit
ANSWER C

12. Which of the following statements is not true with respect to management representations obtained as per AAS11?
A Authenticated copy of relevant minutes of meetings may be regarded as management representation
B It should always be in working
C It may be dated prior to the report date
D It should be addressed to the auditor
ANSWER B

13. The audit engagement letter, generally, should include a reference to each of the following except
A limitations of auditing
B responsibilities of management with respect to audit work
C expectation of receiving a written management representation letter.
D A description of the auditor's method of sample selection.
ANSWER D

14. The use of an audit engagement letter is the best method of assuring the auditor will have which of the following?
A Auditor will obtain sufficient appropriate audit evidence.
B Management representation letter
C Access to all books, accounts and vouchers required for audit purpose
D Cooperation from other auditors
ANSWER. C

15. The use of an audit engagement letter is the best method of documenting
i) the required communication of significant deficiencies in internal control
ii) significantly higher control risk than that assessed in prior audit.
iii) Objective and scope of auditor's work
iv) Notification of any changes in the original arrangements of the audit.
A (i) and (ii)
B (i) and (iii)
C (ii) and (iv)
D (iii) and (iv)
ANSWER D

16. The scope of the audit including reference to the pronouncements of the ICAI, which the auditor adheres to, generally is communicated to the client in the ____
- i) auditor's report
 - ii) engagement letter
 - iii) representation letter
- A i) only
 - B Both (i) and (ii)
 - C Both (i) and (iii)
 - D All the above
- ANSWER B

17. The date on auditor's report should not be__
- A the data of AGM
 - B later than the date on which the accounts are approved in board's meeting
 - C earlier than the date on which the accounts are approved by the management
 - D Both (a) and (b)
- ANSWER C

18. The Companies Act, requires the auditor to give his report to the members of the company on certain matters. Which of the following is not included in the above?
- A Accounts examined by him
 - B Every balance sheet and profit and loss account laid before a general meeting during his tenure
 - C Every document that is a part of or 'annexed to' the balance sheet
 - D Every document which is attached to the profit and loss account
- ANSWER D

19. When restrictions that significantly affect the scope of the audit are imposed by the client, the auditor generally should issue which of the following opinion?
- A Qualified opinion
 - B Disclaimer of opinion
 - C Adverse opinion
 - D Unqualified report with 'an emphasis of matter' paragraph;
- ANSWER A

20. Which of the following report not result in qualification of the auditor's opinion due to a scope limitation?
- A Restrictions the client imposed
 - B Reliance on the report of other auditor
 - C Inability to obtain sufficient appropriate evidential matter
 - D Inadequacy of accounting records
- ANSWER B

21. The inventory consists of about one per cent of all assets. The client has imposed restriction on auditor to prohibit observation of stock take. The auditor cannot apply alternate audit procedures.
- A Unqualified opinion
 - B qualified opinion
 - C disclaimer of opinion
 - D adverse opinion
- ANSWER A
22. If in the above question, the inventory consisted of about ten per cent of total assets, other conditions remaining same, the auditor should issue ___
- A unqualified opinion
 - B qualified opinion
 - C disclaimer of opinion
 - D adverse opinion
- ANSWER C
23. The auditor has serious concern about the going concern of the company. It is dependent on company's obtaining a working capital loan from a bank which has been applied for. The management of the company has made full disclosure of these facts in the notes to the balance sheet. The auditor is satisfied with the level of disclosure. He should issue_
- A unqualified opinion
 - B unqualified opinion with reference to notes to the accounts
 - C qualified opinion
 - D disclaimer of opinion
- ANSWER B
24. Which of the following is true about explanatory notes?
- A These are given by the directors of the company
 - B These are given to adhere to requirements of section 211.
 - C These are given by auditors of the company in auditor's report
 - D All of the above
- ANSWER A
25. The client changed method of depreciation from straight line to written down value method. This has been disclosed as a note to the financial statements. It has an immaterial effect on the current financial statements. It is expected, however, that the change will have a significant effect on future periods. Which of the following option should the auditor express?
- A Unqualified opinion
 - B Qualified opinion
 - C Disclaimer of opinion
 - D Adverse opinion
- ANSWER: A

26. Standards issued by the Auditing and assurance standards boards under the authority of the council are collectively known as _____.

- A. Standards of Auditing
- B. Auditing Pronouncement
- C. Engagement Standards
- D. All of the above

ANSWER: C

27. Compliance with the Standard of Auditing is the responsibility of

- A. Management
- B. Those charged with governance
- C. Auditor
- D. Audit committee

ANSWER: C

28. The auditor shall comply with each requirement of SA unless in the circumstances of auditing,

- A. The entire SA is not relevant
- B. The requirement is not relevant because it is conditional and the condition does not exist
- C. Both a and b
- D. None of the above

ANSWER: C

29. As per the council general guidelines issued by the institute of Chartered accountant of India, if member express his opinion on financial statement in which his relative has a substantial interest, he is _____.

- A. Required to take utmost care in Auditing the financial statements
- B. Required to accept the audit engagement by carefully reading the terms of engagement
- C. Required to withdraw later on if it is threat to his independence
- D. Guilty of professional misconduct

ANSWER: D

30. There can be situation in which certain matters are covered both by a „Statement“ and by a „Standards of Auditing“. In such a situation, _____ prevails till the time the relevant

- A. Standards of Auditing, statement is authorized
- B. Statement, Standards of Auditing becomes mandatory
- C. Accounting Standards, statement is authorized
- D. Guidance note, statement is authorized

ANSWER: B

31. The „accounting standards“ and „Standards on Auditing“ establish standards which have to be complied with to ensure that financial statements are prepared in accordance with _____.
- A. Generally acceptable Audit Procedure
 - B. Accounting Principles
 - C. Ind AS
 - D. Accounting Standards
- ANSWER: A
32. If the auditor is unable to draw reasonable assurance, he should either withdraw from engagement if permitted by law or Disclaim his opinion is given in which Standard of Auditing?
- A. SA 500
 - B. SA 200
 - C. SA 705
 - D. SA 700
- ANSWER: B
33. The auditor shall form an opinion whether the financial statement are prepared, in all material aspects with _____.
- A. Accounting Principles
 - B. Applicable financial reporting framework
 - C. Management’s instructions
 - D. Laws and regulations
- ANSWER: B
34. What is not a basic element of auditor’s report?
- A. Title
 - B. Signature of auditor
 - C. Other information
 - D. Introductory Para
- ANSWER: D
35. The purpose of communicating key audit matters is to enhance the _____ of the auditor’s report by providing greater transparency about the audit that was performed.
- A. Quality Value
 - B. Quantitative value
 - C. Communicating value
 - D. All of the above
- ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

1. Comment on: - verification of verification of assets.
2. Comment on: - Liabilities supplement vouching.
3. Comment on the statement: - Physical verification of auditors is not a part of an auditor's duty.
4. Explain the objects of verification of assets.
5. Comment on: - verification of liabilities.
6. How will you verify land and building?
7. How will you verify debtors?
8. Explain the concept of verification of deferred revenue expenditure.
9. Explain the concept of verification of capital commitments.
10. Explain the concept of verification of bills receivable.
11. Explain the concept of verification of inventories.
12. Describe in brief the concept of verification of liabilities.
13. Explain the objects of verification of liabilities.
14. How does an auditor vouch contingent liabilities?
15. How will an auditor vouch loans and advances?
16. How does an auditor verify debentures?
17. How will an auditor verify provision for income tax?
18. How will an auditor verify valuations and disclosure?
19. How does an auditor vouch for borrowings?
20. How does an auditor vouch trade creditors?
21. Comment on: - verification of inventories.
22. Comment on: - verification of debtors.
23. Comment on: - verification of investments.
24. How does an auditor verify current assets?
25. How does an auditor verify investments?
26. Distinguish between Vouching and verification.
27. Distinguish between Verification and valuation of assets.
28. What is the importance of valuation of assets.
29. What are the duties of an auditor regarding verification of debtors?
30. "It is no part of auditor's duty to take stock." Discuss.

III LONG ANSWER TYPE QUESTIONS:

1. What is verification of assets? Explain in detail.
2. An auditor is not a valuer yet he is concerned with the valuation of assets. Explain the statement.
3. State the duties of an auditor regarding the valuation of stock-in-trade.
4. What is the object of verification of assets?
5. How far is the auditor responsible as regards the valuation of assets?
6. What do you understand by "verification of liabilities"? Explain in detail.
7. What are the objectives of verification of liabilities?
8. Describe in detail the statement that "An auditor is not a valuer yet he is intimately concerned with the valuation of liabilities."

9. To what extent can an auditor be held liable for verification of liabilities? Explain.
10. Critically comment and explain the statement “The auditor must physically inspect all the securities in which money has been invested during the year, to verify existence and ownership of such investments.”
11. What do you know about the duties of an auditor with regarding stock-in-trade in the light of legal judgements?
12. Explain the process of verification of loans raised for financial institutions.
13. Explain the process of verification of furniture and fittings.
14. Explain the process of verification of trade debtors.
15. Explain the process of verification of plant and machinery.
16. Explain the process of verification of patents and trademarks.
17. Explain the process of verification of stock-in-trade.
18. Explain the difference between vouching, verification and valuation. What are the duties of an auditor with respect to each one of them?
19. Explain the process of verification of cash in hand and cash at bank.
20. Explain the process of verification of bills receivable.
21. Explain the process of verification of freehold property.
22. Explain the process of verification of patents.
23. What are the duties of an auditor with respect to valuation of assets?
24. What are the duties of an auditor with respect to valuation of liabilities?
25. “It has been stated that valuation for investment for balance sheet and purposes depends largely upon the objects for which such investments are held.” Discuss.
26. “An auditor is required to make specific evaluation while forming an opinion in an audit report”. Explain.
27. State the reasons which could lead to the following in Auditor’s Report:
 - (i) Adverse opinion
 - (ii) Qualified opinion
 - (iii) Disclaimer of opinion.
28. “Verification of liabilities is as important as that of assets, for, if any liability is omitted or understated or overstated, the Balance Sheet will not show a true and fair view of the state of affairs of the company”, Discuss.
29. How will you vouch and/or verify the following
 - (i) Sale proceeds of scrap
 - (ii) Trademarks and copyrights
30. ‘Auditor is not valour. An auditor is intimately connected with values.’ State the nature of duties of an auditor in regard to valuation of assets and liabilities in the light of the above statement.

QUESTION BANK

CORPORATE ACCOUNTING

BCOM- 206

UNIT - I

I MULTIPLE CHOICE QUESTIONS:

1. The forfeited shares can be issued at:

- A. Par
- B. Premium
- C. Discount
- D. All of them

ANSWER: D

2. Share discount is shown in the balance sheet as in?

- A. Asset
- B. Deduction in paid up capital
- C. Separate item on liability side

ANSWER: A

3. Bonus shares can be issued at:

- A. Discount
- B. Premium
- C. Par
- D. All of them

ANSWER: D

4. The money paid on forfeited shares is credited to:

- A. Share premium
- B. Share capital
- C. Forfeited share

ANSWER: C

5. The persons who take the risk of issuing shares are known as:

- A. Directors
- B. Promoters
- C. Under-writers

ANSWER: C

6. Debentures can be issued at:

- A. Par
- B. Discount
- C. Premium
- D. All of them

ANSWER: D

7. Shares at discount must be issued after the approval by the authority within:
- A. 30 days
 - B. 60 days
 - C. 90 days
 - D. 120 days
- ANSWER: B
8. The Share Premium Account should be shown under:
- A. Share Capital
 - B. Current Liabilities
 - C. Current Assets
 - D. Reserves and Surplus
- ANSWER: D
9. The maximum amount beyond which a company is not allowed to raise funds, by issue of shares is known as
- A. Issued capital
 - B. Reserve capital
 - C. Nominal capital
 - D. Subscribed capital
- ANSWER: C
10. That part of the capital of a Company that is subscribed by the members of the Company for time being is called-
- A. Issued capital
 - B. Reserve capital
 - C. Nominal capital
 - D. Subscribed capital
- ANSWER: D
11. Preference shares cannot be redeemed unless they are:
- A. partly paid-up
 - B. fully paid-up
 - C. transferred
 - D. re-issued
- ANSWER: B
12. In case of issue of shares, amount received above per value is credited to which account?
- A. securities premium a/c
 - B. discount a/c
 - C. share forfeiture a/c
 - D. none of these
- ANSWER: D

13. Which of the following cannot be utilized for the redemption of preference-shares of a company?
- A. Proceeds of fresh issue of shares
 - B. General Reserve
 - C. Dividend equalization reserve
 - D. Securities premium on fresh issue of shares
- ANSWER: C
14. Schedule III Part II of the Companies Act, 2013 deals with:
- A. Format of Balance Sheet
 - B. Format of Profit and Loss
 - C. Format of Cash Flow
 - D. Format of Trading Account
- ANSWER: B
15. Schedule III Part I of the Companies Act, 2013 deals with:
- A. Format of Balance Sheet
 - B. Format of Profit and Loss
 - C. Format of Cash Flow
 - D. Format of Trading Account
- ANSWER: A
16. The share of profit a shareholder will receive is called
- A. dividend
 - B. surplus
 - C. net profit
 - D. retained profit
- ANSWER: A
17. A company is allowed by law to sell 200 000 shares at \$2.00 each. Three-quarters (3/4) of these shares were bought by the public. What is the issued share capital?
- A. \$100 000
 - B. \$300 000
 - C. \$400 000
 - D. \$500 000
- ANSWER: B
18. Maximum buy back limit in any year is ___ of total paid up equity capital.
- A. 25%
 - B. 10%
 - C. 20%
 - D. no limit
- ANSWER: A

19. Premium payable on buy back is adjusted out of:
- A. Securities premium account
 - B. free reserves
 - C. both of the above
 - D. none of the above
- ANSWER: C
20. The share capital of a company generally means:
- A. authorized capital
 - B. issued capital
 - C. subscribed capital
 - D. paid-up capital
- ANSWER: C
21. When shares are forfeited, the share capital account is debited by:
- A. Nominal value of shares
 - B. Called-up amount
 - C. Paid-up amount
 - D. None of these
- ANSWER: B
22. IF A SHARE OF Rs.10, on which Rs.6 has been paid, is forfeited, it can be reissued at the minimum price of:
- A. Rs.6 per share
 - B. Rs.4 per share
 - C. Rs.10 per share
 - D. Rs.7 per share
- ANSWER: B
23. Interest on calls in arrears is charged according to Table F at:
- A. 10% per annum
 - B. 6% per annum
 - C. 12% per annum
 - D. 14% per annum
- ANSWER: A
24. Share premium money can be used for:
- A. Payment of dividend
 - B. Writing off goodwill
 - C. Issue of fully paid bonus shares
- ANSWER: C
25. The balance of the forfeited shares account after reissue of forfeited shares account is transferred to:
- A. Capital reserve account
 - B. Share capital account
 - C. Profit and loss account
- ANSWER: A

26. What is the max. Discount which can be offered on reissue of forfeited shares?

- A. 10%
- B. 20%
- C. Not more than Forfeited amount
- D. No limit

ANSWER: C

27. Can shares be issued at a discount now?

- A. Yes
- B. No

ANSWER: B

28. What does AS 14 talks about?

- A. Amalgamation
- B. External reconstruction
- C. Absorption
- D. Goodwill

ANSWER: A

29. What is the rate of interest offered on calls in advance?

- A. 5%
- B. 6%
- C. 12%
- D. 13%

ANSWER: C

30. What is the rate of interest charged on calls in arrears?

- A. 5%
- B. 6%
- C. 13%
- D. 12%

ANSWER: B

31. Only fully paid up preference shares can be redeemed.

- A. True
- B. False

ANSWER: A

32. The amount to issue bonus shares can be used from:

- A. Free reserves
- B. Security premium
- C. Proceeds of fresh issue
- D. All of the above

ANSWER: D

33. The amount to redeem fully paid preference shares can be used from:

- A. Free reserves
- B. Securities premium
- C. Capital reserve
- D. All of the above

ANSWER: A

34. Fully paid Bonus shares can be issued from:

- A. Capital reserve
- B. Capital redemption reserve
- C. None
- D. All of the above

ANSWER: B

35. Shares cannot be issued at a discount except in case of:

- A. Sweat equity shares
- B. Fresh issue
- C. Never can they be issued at a discount
- D. Always can be issued at a discount

ANSWER: A

II SHORT ANSWER TYPE QUESTIONS:

1. Can share premium be distributed as dividend?
2. What do you understand by buy-back of shares?
3. Write a short note on forfeiture of shares.
4. Write short note on issue of bonus shares.
5. What is a rights issue? What is its purpose?
6. What do you understand by employee stock option plan?
7. Give an accounting treatment of ESOP.
8. State the meaning of forfeiture of shares. When can shares be forfeited?
9. What is a debenture and its redemption? Describe the various methods for redemption of debentures. Give illustrations.
10. Issue of Debentures for Consideration other than Cash. Explain.
11. 15,000, 9% redeemable preference shares of Rs.100 each of global customer care ltd. Repayable at a premium of 12% are now due for redemption. The company has accumulated reserves the amount of which is much in excess the sum required for redemption. In addition, there is a large balance lying securities premium account which is available for payment of premium on redemption. Show the journal entries in the books of the company to give effect to above.
12. In February 2016 A ltd offered for subscription 1,000 14% debentures of Rs. 1,000 each at the issue price of 94% payable Rs.50 per debenture on application, Rs.500 on allotment and the balance on 1 may, 2016. Interest was payable half yearly on 30 June and 31 December. The first coupon payable on 30 June 2016, being for 5%. The issue was fully

- taken up. Rate of tax deducted at source is 10%. Journalise the transaction and show how they would appear in the company's balance sheet as on 31st December 2016.
13. A Ltd. Made the following issue of debentures:
 - i. For cash at 90% but payable at 110%; debentures of Rs. 10,000.
 - ii. To a creditor who supplies machinery costing Rs. 1,00,000; 1,100 debentures of Rs. 100 each.
 - iii. To bank for a loan of Rs. 7,00,000 as collateral security, 10,000 debentures of Rs. 100 each.

Journalise the transactions.
 14. A company has a share capital of 5,00,000 equity shares of Rs. 10 each, Rs. 6 per share paid. It has a balance in the Reserve Fund Account amounting to Rs. 50,00,000. The company has decided to pay bonus to shareholders by making the partly paid share as fully paid. Make necessary journal entries to record the same.
 15. A company has a share capital of 10,00,000 equity shares of Rs. 10 each, Rs. 8 per share paid up. It has a reserve fund of Rs. 80,00,000. If it is decided to utilise the whole of the reserve fund in the following manner:
 - (a) The existing shares to be made fully paid up without the shareholders having to pay anything and
 - (b) Each shareholder is to be given proportionate to his holdings, bonus shares for the remaining amount in the Reserve Fund, the shares to be valued at Rs. 12 each.

Pass the necessary journal entries to record the above deal.
 16. X Ltd. forfeited 500 shares of Rs. 100 each on which final call of Rs. 30 per share has not been received. Other calls have been duly received. Make journal entry to record the forfeiture of shares.
 17. X, a shareholder, holding 100 shares of Rs. 10 each has paid application money of Rs. 2 per share and allotment money of Rs. 3 per share, but has failed to pay the first call of Rs. 2 per share and second call of Rs. 3 per share. His shares were forfeited. Make the journal entry to record the forfeiture of shares.
 18. A company has offered for subscription to the public 10,000 shares of Rs. 10 each. It has received applications for 15,000 shares. Company has decided to allot shares on a pro-rata basis. Gunakshi holding 200 shares failed to pay allotment money and first call money. Her shares were forfeited: Amount payable was as under: Rs. 2 per share on application. Rs. 3 per share on allotment. Rs. 5 per share on call. Make journal entries and prepare relevant account in the books of the company.
 19. M.B. Software Ltd. issued Rs. 5,00,000 capital divided into equity shares of Rs. 10 each. The shares were issued at a premium of Rs. 4 per share and were payable as: Rs. 3 per share on application, Rs. 7 (including premium) per share on allotment and the balance on call. All the shares applied for and were duly allotted. All the money was duly received except on 500 shares on which the call money was not received. Company decided to forfeit these shares. Make journal entry to record the forfeiture of 500 shares.
 20. The Latest Technology Company Ltd. offered to public for subscription of 50,000 shares of Rs. 20 each at a premium of Rs. 5 per share. The amount was payable as under: On application Rs. 5 per share On allotment Rs. 12 per share (Including premium of Rs. 5 per share) On first call Rs. 4 per share On Second and Final call Rs. 4 per share Applications

- were received for all the shares. Allotment was made to all the applicants in full. Ashima failed to pay allotment and call money on 200 shares held by her. Reshma was allotted 300 shares. She did not pay the call money. Their shares were forfeited. Make necessary journal entry for the forfeiture only.
21. The Evergrowing Ltd. invited applications for 20000 shares of Rs. 50 each at a discount of 10% payable as follows: On application Rs. 10 per share On allotment Rs. 20 per share On call Rs. 15 per share Whole of the issue was subscribed and paid for except the calls money on 200 shares which were forfeited by the company. Make journal entry for forfeiture of shares.
 22. ABC Limited issued Rs 10,000, 12% debentures of Rs 100 each payable Rs 30 on application and remaining amount on allotment. The public applied for 9,000 debentures which were fully allotted, and all the relevant allotment money was duly received. Give journal entries in the books of ABC Ltd., and exhibit the relevant information in the balance sheet.
 23. TV Components Ltd., issued 10,000, 12% debentures of Rs 100 each at a discount of 5% payable as follows: On application Rs 40 On allotment Rs 55 Show the journal entries including those for cash, assuming that all the instalments were duly collected. Also show the relevant portion of the balance sheet.
 24. X Ltd. made its first call of Rs 20 per share on 1st July 2006. Zahir holding 200 shares failed to pay the call money. He could pay the money only on 31st December, 2006. Company charged interest @12% per annum. Make necessary journal entry for the interest charged by the company.
 25. Explain the conditions under which redeemable preference shares can be redeemed.
 26. A Ltd. forfeited 300 equity shares of Rs. 10 fully called-up, held by Mr. X for non-payment of Final Call @ Rs. 4 each. However, he paid Application money @ Rs. 2 per share and Allotment money @ Rs. 4 per share. These shares were originally issued at par, Give Journal entries for forfeiture.
 27. X Ltd forfeited 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each. Applications money @ Rs. 2 per share and Allotment money @ Rs. 4 per share have already been received by company. Give Journal entries for the forfeiture.
 28. Noor Khan Limited Company was established with Authorized Capital of 100,000 shares and invited applications for 10,000 shares of 10 each at premium of Rs. 5 per share payable as: On application Rs. 3 per share, on allotment Rs. 6 per share including premium and balance in two calls in equal amount. Applications were received for 18,000 shares. 8,000 share applications were refunded and were allotted to all the other applicants. Mr. Nadeem fail to pay the allotment money for 200 shares issued to him; so these shares were forfeited when he will fail to pay the 1st and 2nd call money. Thereafter, 100 shares were reissued at stated rate of 9 per share. All other monies were received by the Abbottabad Ltd. as on December 31st, 2017.
 29. Write a short note on sweat equity shares.
 30. 'X' Co. Ltd., buys back its own 1, 50,000 equity shares of Rs. 10 each, at par. The company has sufficient profits otherwise available for dividend besides general reserve. No fresh issue of shares is made for this purpose. The shares are fully paid up. Journalise the transactions.

III LONG ANSWER TYPE QUESTIONS:

1. A Limited Company issued 25,000 Ordinary Shares of Rs. 25 each payable Rs. 5 on application, Rs. 10 on allotment and Rs. 5 each on subsequent calls, 20,000 shares were fully-subscribed and moneys duly received. You are required to give journal entries, Cash Book and Balance Sheet of the company.
2. X Ltd. makes an issue of 20,000 Equity Shares of Rs.10 each at Rs. 11 on 1st March payable as follows:
Rs. 2 on Application
Rs. 3 on allotment
Rs. 6 on First and Final Call (3 months after allotment)

Applications were received for 26,000 shares. The Directors made the allotment in full to the Application demanding 10 or more shares and returned money to the applicants for 6,000 shares.

One shareholder who was allotted 40 shares paid the first and final call money along-with allotment money and an another shareholder who was allotted 60 shares did not pay allotment interest money but paid along-with first and final call money. The Directors deeded to change and allow interest, as the case may be, on calls-in-advance and calls-in-arrears.

Give journal entries in the books of the company.

3. X Co. Ltd. forfeited 100 shares of Rs. 10 each fully called up, held by Mr. Arun for non-payment of allotment money of Rs. 3 per share and first and final call of Rs. 4 per share. He paid application money @ Rs. 3 per share. These shares were reissued @ Rs. 9 per share as fully paid.
Pass forfeiture and reissue journal entries
4. Glamour Limited invited applications for 15,000 shares of Rs. 10 each issued at Rs. 11.50 payable as follows:
On application 1st July Rs. 7.50 per share
On allotment on 31st July Rs. 2.00 per share
On First and Final Call on 31st Aug. Rs. 2.00 per share
Applications were received for 18,000 shares and it was decided to deal the same as follows in arrangement with Stock Exchange authorities:
 - (a) To refuse allotment to applicants for 800 shares
 - (b) To give full allotment to applicants for 2,200 shares
 - (c) To allot the remaining shares pro-rata among other applicants
 - (d) To utilise the surplus received on application in part payment of amounts due on allotment. An applicant to whom 40 shares were allotted, failed to pay the amount due on the First and final Call and his shares were forfeited on 31st Oct. These shares were reissued on 5th Nov. as fully paid at Rs. 9 per share.

Give journal entries including those relating to cash to record the above transactions.

6. Exe Ltd issued 10000 shares of Rs. 50 per share issued at a discount of Rs. 5 per share payable as Rs.10 per share on application, Rs. 20 per share on allotment and the balance on call. All money was duly received except of 400 shares on which allotment and call money was not received. These shares were forfeited. Make journal entries in the books of the company and prepare ledger accounts also.
7. The following are the extracts from the draft Balance Sheet of A Ltd., as on December 31,2010.

	₹
<i>Authorised Capital</i>	
20,000 Equity shares of ₹10 each	2,00,000
Issued and Subscribed Capital 10,000 Equity Share of ₹10/-each	1,00,000
Reserve Fund	80,000
Profit and Loss Account	30,000

A resolution was passed by the company declaring bonus of 25% on equity shares to be provided as to Rs 15,000 out of reserve fund and the balance out of profit and loss account. The bonus was to be satisfied by issuing fully paid equity shares.

You are required to make necessary journal entries and show the effect on the Balance Sheet of the company.

8. M/s Herbal Tea Plantations Ltd. was registered with a capital of Rs 1 crore divided into equity shares of Rs 100 each. The company offered to public 50000 shares at a premium of Rs 20 per share. The amount on shares was payable as : Rs 25 on application Rs 50 (including Rs 20 premium) on allotment Rs 20 on first call and Rs 25 on final call. Applications were received for 75000 shares. Shares were allotted to the applicants on prorata basis. Kanti Bhai who was allotted 500 shares did not pay the allotment money. He also failed to pay the first call. His shares were forfeited. Sheetal was holding 200 shares did not pay the first call. Final call was not made. Make journal entries in the books of the company.
9. Aggarwal constructions Ltd. offered to public for subscription 40000 shares of Rs 50 each at a premium of Rs 10 per share. The amount of these shares is payable as : Rs 30 per share on application Rs 30 per share on allotment (including Rs 10 of premium) and the balance of First and Final call Applications were received for 75000 shares. Applicants of 15000 were sent letters of regret and their application money was returned. Remaining applicants were allotted shares on prorata basis. Sudhir holding 400 shares did not pay the allotment money. His shares were forfeited and call was made. Make journal entries.
10. Pass the necessary journal entries for the issue and redemption of debentures in the following cases:
- 15,000,9% debentures of Rs 250 each issued at 5% premium, repayable at 15% premium.
 - 2,00,000,12% debentures of Rs 10 each issued at 8% premium, repayable at par.

11. XYZ Industries Ltd., issued 2,000, 10% debentures of Rs 100 each, at a premium of Rs 10 per debenture payable as follows: On application Rs 50 On allotment Rs 60
Accountancy : Company Accounts and Analysis of Financial Statements The debentures were fully subscribed and all money was duly received. Record the journal entries in the books of a company. Show how the amounts will appear in the balance sheet.
12. A Limited issued 5,000, 10% debentures of Rs 100 each, at a premium of Rs 10 per debenture payable as follows: On application Rs 25 On allotment Rs 45 (including premium) On first and final call Rs 40 The debentures were fully subscribed and all money was duly received. Record the necessary entries in the books of the company. Show how the amounts will appear in the balance sheet.
13. Suvidha Ltd. purchased machinery worth Rs 1,98,000 from Suppliers Ltd. The payment was made by issue of 12% debentures of Rs 100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when: (i) Debentures are issued at par; (ii) Debentures are issued at 10% discount; and (iii) Debentures are issued at 10% premium.
14. Give Journal entries for the following:
1. Issue of Rs 1,00,000, 9% debentures of Rs 100 each at par and redeemable at par.
 2. Issue of Rs 1,00,000, 9% debentures of Rs 100 each at premium of 5% but redeemable at par.
 3. Issue of Rs 1,00,000, 9% debentures of Rs 100 each at discount of 5% repayable at par.
 4. Issue of Rs 1,00,000, 9% debentures of Rs 100 each at par but repayable at a premium of 5%.
 5. Issue of Rs 1,00,000, 9% debentures of Rs 100 each at discount of 5% but redeemable at premium of 5%.
 6. Issue of Rs 1,00,000, 9% debentures of Rs 100 each at premium of 5% and redeemable at premium of 5%.
15. A Ltd. Company has issued Rs 1,00,000, 9% debentures at a discount of 6%. These debentures are to be redeemed equally, spread over 5 annual instalments. Show Discount on issue of debentures account for five years.
16. Fashion Fabrics Ltd. issued 100000 shares of Rs. 10 each on 1st April, 2006. The amount payable on these shares was as under: Rs 2 per share on application. Rs 3 per share on allotment. Rs 5 per share on call. Make journal entries and prepare relevant accounts in the books of company.
17. The Full Health Care Ltd has offered to public for subscription 20000 shares of Rs 100 each payable as Rs 30 per share on application, Rs 30 per share on allotment and the balance on call. Applications were received for 30000 shares. Applications for 5000 shares were rejected all together and application money was returned. Remaining applicants were allotted the offered shares. Their excess application money was adjusted towards some due on allotment. Calls were made and duly received. Make journal entries in the books of the company.

18. Luxury Cars Ltd. issued 100000 shares of Rs 10 each at a premium of Rs 5 per share, payable as: On application Rs. 4 (including Rs 2 premium) per share On allotment Rs 8 (including Rs 3 premium) per share On call Rs. 3 per share Applications were received for 100000 shares and allotment was made to all. Make journal entries.
19. Sri Krishna Agro Chemical Ltd. was registered with a capital of Rs 5000000 divided into 50000 shares of Rs 100 each. It issued 10000 shares at discount of Rs 10 per share, payable as : Rs 40 per share on application Rs 30 per share on allotment Rs 20 per share on call. Company received applications for 15000 shares. Applicants for 12000 shares were allotted 10000 shares and applications for the remaining shares were sent letters of regret and their application money was returned. Call was made. Allotment and call money was duly received. Make journal entries in the books of the company.
ABC Ltd issued 20000 shares of Rs 10 each payable as Rs 2 per share on application, Rs 5 (including premium of Rs 2 per share) on allotment, Rs 3 per share on first call and the balance on Final Call. All the money were received except the first call money on 400 shares; which was received later on with final call. Make necessary journal entries.
- 20.
- Akshay Ltd. made an issue of 20,000 shares of Rs.10 each payable as follows : Rs. 2 on application, Rs. 2 on allotment, Rs. 3 on first call and the balance on second call. The first call is made and all members pay, including a member holding 800 shares, who pays for the balance due in full. Later the final call is made and is fully met. Give journal entries.
 - Nirmal Ltd. with an authorised capital of Rs.10,00,000, in shares of Rs. 10 each, issued 50,000 of such shares, payable Rs.2 per share on application, Rs. 3 on allotment, Rs.2.50 per share three months later, and duly received. But when the call of Rs.2.50 was made a shareholder holding 200 share failed to pay the call money while another shareholder holding 400 shares paid the entire Balance. Give journal entries.
21. Super India Petro Chemicals Ltd. was registered with a capital of Rs 1 crore divided into equity shares of Rs 100 each. Company purchased plant of Rs 2500000 and paid the amount by issuing shares at a premium of Rs 25 per share. Company also issued shares of Rs 5000000 to the general public at a premium of Rs 25 per share. The amount payable was : Rs 65 on application and allotment Rs 30 on first call and the balance on final call. Company received applicaitons for 75000 shares Allotment was made as follows : Applicants for 10000 shares nil 40000 shares Full 25000 shares 10000 Allotment money was received in full but when calls were made all shareshoders paid the amount in full except a shareholder holding 400 shares belonging to the category who were allotted full shares failed to pay the 1st call money which he paid along with the amount of final call company allows interest on call in advance @6% per annum and charges interest on call-in-arrears @ 12% p.a. After the allotment the calls are made at a interval of 2 months. Make necessary journal entries in the books of the company.
22. Rao Galvansing Co.Ltd. has an authorized equity capital of Rs. 20 lakhs divided into shares of Rs. 100 each. The paid up capital was Rs. 12,50,000. Besides this, the company had 9% Redeemable Cumulative Perference Shares of Rs. 10 each for Rs. 2,50,000. Balance on other accounts were-Securities Premium, Rs.18,000, Profit and Loss Account Rs. 72000 and General Reserve Rs. 3,40,000. Included in Sundry Assests were Investments of the

face value of Rs. 30,000 carried in the books at a cost of Rs. 34,000. The company decided to redeem the Cumulative Preference Shares at 10% Premium, partly by the issue of equity shares of the face value of Rs. 1,20,000 at a premium of 10%. Investments were sold at 105% of their face value. All preference shareholders were paid off except 3 holders holding 250 shares. After redemption of the Cumulative Preference Shares, fully paid bonus shares were issued in the ratio of 1:4.

23. The Balance Sheet of Suneel Brothers Ltd. Disclosed the following information on 31st December, 2012. 15% Debentures Debentures redemption fund Debenture redemption fund investments: 10% Government securities Rs. 15,00,000 11,63,600 11,63,600 The contribution to the Debenture redemption fund was 1,30,800 per annum for the year 2013 and 2014. Debentures fell due for payment on 31st December, 2014. Prepare the above accounts in the books for the company assuming that securities were realized on 31st December, 2014 for a sum of Rs. 13,52,000 and interest on Securities on 31st December, was immediately invested.

Give the necessary journal entries bearing in mind that the Directors wanted a minimum reduction in free reserves, while effecting the above transactions. Working should form part of your answer.

24. What are the circumstances in which there may be a need for valuation of shares of joint stock company? How will you determine the intrinsic value of one equity share of joint stock company? Explain with the help of an illustration.
25. State the conditions which are required to be satisfied by a company for the purpose of buy-back of shares.
26. Discuss in detail all the provisions for buy-back of shares. Also provide the journal entries for the same.
27. Ali Ahmed & Company is Public Limited Company listed in Karachi Stock Exchange. Company formed in 2006, under Authorized Shares 100,000 of worth 100 each. Company has decided to raise equity finance by issuing 20,000 equity shares at a Premium of Rs. 20 per share payable as follows: on Application Rs. 30; on Allotment Rs. 50 (including Premium); on First Call Rs. 20 and on Final Call Rs. 20. Applications were received for 24,000 of equity shares. 4,000 Applications were refunded and were transfer the ownership to all other applicants. Mr. Khan, the holder of 1,000 shares, failed to pay First Call Money. On his subsequent failure to pay the Final Call Money, the shares were forfeited. After forfeiture, 500 shares reissued at 90 each. Show the Journal entries; Bank Book and Balance Sheet.
Requirement: Show the Journal entries; Bank account, Share Capital Account and Balance Sheet for the year ended 30th March, 2018.

28. The following is the Balance Sheet of Ramco as on 31st Dec.:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Paid-up Capital :		Land & Buildings	12,60,000
6,00,000 Equity shares of		Plant & Machinery	47,00,000
Rs. 10 each	60,00,000	Furniture & Fittings	7,00,000
General Reserve	14,00,000	Investments	7,40,000
Securities Premium	10,10,000	Stock	24,00,000
12% Debentures	28,00,000	Sundry Debtors	11,80,000
Sundry Creditors	9,20,000	Bank	11,50,000
	,21,30,000		,21,30,000

On 1st April, the share-holders of the company have approved the scheme of buy-back of equity shares as under:

- 20% of the equity shares would be bought back at Rs. 16 per share.
 - General Reserve balance may be utilised for the purpose.
 - Premium paid on buy-back of shares should be met from the Securities Premium Account.
 - Investments would be sold for Rs. 7, 80,000.
 - Pass journal entries to record the above transactions and prepare the Balance Sheet of the Company immediately after the buy-back of shares.
29. Discuss the provisions of redemption of debentures. Explain various methods by which debentures can be redeemed. Can debentures be redeemed wholly by capital?
30. What is Capital Redemption Reserve? Discuss the journal entries of CRR.

UNIT - II

I MULTIPLE CHOICE QUESTIONS:

- Under average profit basis goodwill is calculated by :
 - No. of years purchased multiplied with average profits
 - No. of years purchased multiplied with super profits
 - Summation of the discounted value of expected future benefits
 - Super profit divided with expected rate of return
 ANSWER: A
- Under super profit basis goodwill is calculated by :
 - No. of years purchased multiplied will average profits.
 - No. of years purchased multiplied with super profits
 - Summation of the discounted value of expected future benefits
 - Super profit divided with expected rate of return
 ANSWER: B
- Under capitalization basis goodwill is calculated by :
 - No. of years purchased multiplied with average profits
 - No. of years purchased multiplied with super profits

- C. Summation of the discounted value of expected future benefits
- D. Super profit divided with expected rate of return

ANSWER: D

4. For determining the value of a share on the basis of price earning ratio, information is required regarding:
- A. Earnings per share
 - B. Normal rate of return
 - C. Capital employed in the business

ANSWER: A

5. For calculating the value of an equity share by yield method, information is required regarding:
- A. Net assets of the business
 - B. Normal rate of return
 - C. Face value of the share

ANSWER: B

6. Following are the factors affecting goodwill except:
- A. Nature of business
 - B. Efficiency of management
 - C. Technical know how
 - D. Location of the customers

ANSWER: D

7. Minority interest of a subsidiary is entitled to:
- A. Capital profits
 - B. Revenue profits
 - C. Both A and B

ANSWER: C

8. Taxation provision made by the subsidiary company will appear in the consolidated balance sheet as an item of:
- A. Current liability
 - B. Revenue profit
 - C. Capital profit

ANSWER: A

9. Inter-company owing on account of dividends will be shown in the consolidated balance sheet as an item of
- A. Asset side
 - B. Liability side
 - C. Nowhere

ANSWER: C

10. Issue of bonus shares by the subsidiary company out of capital profit will:
- A. Decrease cost of control
 - B. Increase cost of control
 - C. Have no effect
- ANSWER: C
11. Securities premium account is shown on the liability side of balance sheet under the heading:
- A. Share capital
 - B. Reserves and surplus
 - C. Current liabilities and provisions
- ANSWER: B
12. Divisible profits do not include:
- A. Reserve fund
 - B. Profits on revaluation of assets
 - C. Post-incorporation profits
- ANSWER: B
13. Dividends are usually paid on:
- A. Authorised capital
 - B. Issued capital
 - C. Paid-up capital
- ANSWER: C
14. Dividends can be paid out of:
- A. Current year's profit
 - B. Capital redemption reserve account
 - C. Securities premium account
- ANSWER: A
15. The value of goodwill, according to the simple profit method, is—
- A. The product of current year's profit and number of years
 - B. The product of last year's profit and number of years
 - C. The product of average profits of the given years and number of years.
- ANSWER: C
16. The goodwill of a business is to be valued at 3 years' purchase of the average profits of the last three years. The profits of the last three years are Rs. 5,000, Rs. 6,000 and Rs. 7,000 respectively. Hence, the goodwill be valued at—
- A. Rs. 18,000
 - B. Rs. 12,000
 - C. Rs. 15,000.
- ANSWER: A

17. A business has a capital of Rs. 40,000 at the end. It had earned profits of Rs. 5,000 during the year. Hence, the average capital of the business will be —
A. Rs. 42,500
B. Rs. 37,500
C. Rs. 35,000
ANSWER: B
18. If the average capital of a business is Rs. 60,000 and the normal rate of profit is 15%, then the normal profits will amount to—
A. Rs. 10,000
B. Rs. 9,000
C. Rs. 15,000
ANSWER: B
19. If the super-profits of a business are Rs. 6,000 and the normal rate of profit is 10%, then the amount of goodwill as per the capitalisation method will be—
A. Rs. 60,000
B. Rs. 600
C. Neither of the two
ANSWER: A
20. Under the yield method of valuation of equity share capital, if for an equity share of Rs. 50, the normal rate of return is 10% and the expected rate of return is 5%, then the value of an equity share will be—
A. Rs. 25
B. Rs. 50
C. Rs. 100
ANSWER: A
21. For calculating the value of an equity share by intrinsic value method, it is essential to know:
A. Normal rate of return
B. Expected rate of return
C. Net equity
ANSWER: C
22. For calculating price-earnings ratio, it is essential to know—
A. Market value per share
B. Nominal value per share
C. Paid-up value per share
ANSWER: A
23. A bond is said to be issued at premium when
A. Coupon rate > Required returns
B. Coupon rate = Required returns
C. Coupon rate

D. None of the above
ANSWER: A

24. If the coupon rate is constant, the value of bond when close to maturity will be
- A. Issued value
 - B. Par value
 - C. Redemption value
 - D. All of the above
- ANSWER: C

25. The value of a bond and debenture is
- A. Present value of interest payments it gets
 - B. Present value of contractual payments it gets till maturity
 - C. Present value of redemption amount
 - D. None of the above
- ANSWER: B

26. Goodwill can be computed with the following methods except:
- A. Simple average profit
 - B. Super profit
 - C. Capitalisation of super profit
 - D. Yield method
- ANSWER: D

27. Value of shares can be computed with the following method:
- A. Simple average profit
 - B. Super profit
 - C. Capitalisation of super profit
 - D. Yield method
- ANSWER: D

28. A will be called the holding co. and B will be the subsidiary of A only when:
- A. A controls the composition of the board of director
 - B. A holds more than 50% of the shares of B limited
 - C. Either A or B
 - D. None
- ANSWER: C

29. Minority interest is shown in the balance sheet under:
- A. Current asset
 - B. Current liability
 - C. Non-current liability
 - D. Equity and liability
- ANSWER: B

30. It is mandatory to make a consolidated balance sheet by the holding company.
A. True
B. False
ANSWER: A
31. Which Accounting Standard covers the provision related to consolidated balance sheet?
A. AS 21
B. AS 12
C. AS 10
D. AS 9
ANSWER: A
32. If AB Ltd buys more than 50% of the shares in CD Ltd then which of the following statements accurately summarises the relationship between these two firms?
A. CD Ltd is the parent undertaking
B. AB Ltd is a subsidiary undertaking of CD Ltd
C. There is no significant financial relationship between the two
D. AB Ltd is the parent undertaking
ANSWER: D
33. The claim by outsiders to assets featured on a consolidated balance sheet is known as:
A. Minority interest
B. Goodwill
C. Subsidiary
D. Wholly owned subsidiary
ANSWER: A.
34. When dealing with consolidated balance sheets, the expression *cost of control* could be used instead of:
A. Goodwill
B. Acquisition expenditure
C. Intangible investment
D. Capital profit
ANSWER: A
35. Pre-acquisition profit in subsidiary company is considered as :
A. Revenue profit
B. Capital profit
C. Goodwill
D. None of the above
ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

1. Write short note on intrinsic value of shares.
2. Explain and illustrate the super profit method of valuation of goodwill.
3. Define goodwill. State the circumstances under which the need for valuation of goodwill arises in case of a joint stock company.
4. Write short note on the need for valuation of shares.
5. What is cost of control in the context of preparing consolidated balance sheet?
6. What do you understand by minority interest?
7. Under what circumstances a company is required to present a “consolidated financial statement”?
8. Explain the average profit method with the help of an illustration.
9. What do you understand by wholly-owned subsidiary?
10. Explain the net asset backing method of valuation of shares.
11. Explain the yield method of valuation of shares.
12. What do you understand by the annuity method of super profit?
13. Explain any two methods for valuation of goodwill.
14. The net profits of a Company, after providing for taxation, for the past five years are Rs. 42,000; Rs. 47,000; Rs. 45,000; Rs. 39,000 and Rs. 47,000. The capital employed in the business is Rs. 4, 00,000 on which a reasonable rate of return of 10% is expected. Calculate the goodwill under:
 - a) Capitalisation of Average Profit Method and
 - b) Capitalisation of Super Profit Method.
15. A business earned average profits of Rs. 1,00,000 during the last few years. The normal rate of return in similar type of business is 10%. The assets of the business were Rs. 10,00,000 and external liabilities was Rs. 1,80,000. Calculate the value of goodwill of the firm by super profit method, if the goodwill is valued at 2. 1/2 years’ purchase of super profits.
16. Explain the super profit method with the help of an illustration.

17. Balance Sheet of Mr. X as on 31st Dec. 2004 was as under:

Capital	2,50,000	Land	1,80,000
Creditors	80,000	Machinery	1,10,000
Bills Payable	20,000	Furniture	2,000
		Stock	8,000
		Cash at Bank	50,000
	3,50,000		3,50,000

The profit of the business for the five years ending 31st Dec. 2004 are:

	Rs.
2000	40,000
2001	42,000
2002	45,000
2003	50,000
2004	53,000

The assets are revalued as under:

Land	1,94,000
Machinery	1,18,000
Furniture	1,000

The reasonable return on capital invested is 10% p.a.

Assume that normal management remuneration is Rs. 6,000.

- Find out Goodwill by Capitalisation Method.
18. Ram runs a chemist shop. His net assets on 31st December 2004 amount to Rs. 20, 00,000. After paying a rent of Rs. 20,000 a year and salary of Rs. 20,000 to the chemist, he earns a profit of Rs. 1,50,000. His landlord, who happens to be an expert chemist, is interested in purchasing the shop 12% is considered to be a reasonable return on capital employed. What can Ram expect as payment for goodwill?
19. What are super profits?
20. How does the nature of business affect the value of goodwill of a firm?
21. How does the factor location affect the goodwill of a firm?
22. A business has earned average profits of Rs. 1,00,000 during the last few years and the normal rate of return in similar business is 10%. Find out the value of goodwill by
(i) Capitalisation of super profit method.
(ii) Super profit method, if the goodwill is valued at 3 years' purchase of super profit. The assets of the business were Rs. 10,00,000 and its external liabilities Rs. 1,80,000.
23. A business earned average profits of Rs. 1,00,000 during the last few years. The normal rate of return in similar type of business is 10%. The assets of the business were Rs. 10,00,000 and external liabilities was Rs. 1,80,000. Calculate the value of goodwill of the firm by super profit method, if the goodwill is valued at 2. 1/2 years' purchase of super profits.
24. Explain capitalization method with the help of an illustration.
25. Explain the Steps Involved in Calculating Goodwill under Super Profit Method.
26. Definition of subsidiary – BOD control / voting power more than 50% .
27. Can goodwill and capital reserve arising on consolidation of different subsidiaries be set off, or should they be recorded and disclosed at gross amount?

28. Explain the Treatment of Preference Shares issued by a Subsidiary Company and held by the Holding Company.
29. Explain the treatment of pre-acquisition losses of subsidiary companies shared and accounted for?
30. How is minority interest calculated?

III LONG ANSWER TYPE QUESTIONS:

1. What are the circumstances in which there may be a need for valuation of shares of a joint stock company? How will you determine the intrinsic value of one equity share of a joint stock company? Explain with the help of illustration.
2. How is goodwill valued? Explain all the methods of calculating goodwill.
3. The following are the Balances of Johri Albhushanb Bander Co. ltd. As on 31st March, 2013.
The following adjustments are to be made:
 - 1) Depreciate: Plant by 15%.
 - 2) Write off Rs. 5,000 from preliminary expenses.
 - 3) Half year's debenture interest due.
 - 4) Create 5% provision on debtors for doubtful debts.
 - 5) Provide for income tax @ 50%.
 - 6) Stock on 31st March, 2013 was Rs.9,50,000.
 - 7) A claim of Rs. 25,000 for workmen's compensation is being disputed by the company.

Prepare Final accounts of the company for the year ending 31st March 2013.

4. The following are the balance sheets of H ltd. And the subsidiary of S ltd. As on 31st March 2013:

Premises	30,72,000	
Plant	33,00,000	
Stock	750,000	
Debtors	8,70,000	
Goodwill	2,50,000	
Cash and Bank	4,06,500	
Calls in arrear	75,000	
Interim Dividend Paid	3,92,500	
Purchases	18,50,000	
Preliminary Expenses	50,000	
Wages	9,79,800	
General expenses	68,350	
Salaries	2,02,250	
Bad debts	21,100	
Debentures Interest Paid	1,80,000	
Share Capital		40,00,000

12% Debentures		30,00,000
P&L Account		2,62,500
Bills Payable		3,70,000
Creditors		4,00,000
Sales		41,50,000
General Reserve		2,50,000
Bad Debt Provision on 01.04.2012		35,000

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd.	S Ltd.
Share Capital (in Rs. 10 shares)	20,000	10,000	Fixed Assets	30,000	15,000
General Reserve	10,000	5,000	Current Assets	35,000	25,000
Profit and Loss A/c balance as on 1 st April 2012	5,000	4,000	800 shares in S Ltd.	10,000	
Profit for the year	10,000	6,000			
12% Debentures	20,000	10,000			
Sundry Creditors	10,000	5,000			
Total	75,000	40,000		75,000	40,000

H Ltd. Acquired shares in S ltd. On 1st Sep 2012. S ltd. Had a balance of Rs. 4,000 in general reserve on 1st April, 2012. On account of fire, goods costing Rs. 2,000 of S ltd. Were destroyed in June, 2012. The loss had been charged to the profit and loss account for the year.

You are required to prepare a consolidated balance sheet for the year ending 31st March, 2013.

5. On 31st December 2004, the Balance Sheet of a Limited Company disclosed the following position:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Issued Capital in shares of Rs. 10 each	4,00,000	Fixed Assets	5,00,000
Reserves	90,000	Current Assets	2,00,000
Profit and Loss	20,000	Goodwill	40,000
5% Debentures	1,00,000		
Current Liabilities	1,30,000		
	7,40,000		7,40,000

On 31st December 2004, the fixed assets were independently valued at Rs. 3, 50,000 and the goodwill at Rs. 50,000.

The net profits for the three years were:

2002 Rs. 51,600; 2003 Rs. 52,000 and 2004 Rs. 51.650 of which 20% was placed to Reserve Account and this proportion being considered reasonable in the industry in which

the Company is engaged and where a fair investment return may be taken at 10%. Compute the value of the Company's share by (a) the Assets Method and (b) the Yield Method.

6. The Balance Sheet of Sumana Ltd. as at 31.12. 2004 were as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
<i>Share Capital:</i>		<i>Fixed Assets:</i>	
50,000 Equity Shares of Rs. 10 each, fully paid	5,00,000	Goodwill	10,000
2,000, 8% Preference shares of Rs. 100 each fully paid.	2,00,000	Land & Building	1,50,000
<i>Reserves and Surplus:</i>		Plant & Machinery	3,50,000
Capital Reserve	1,00,000	<i>Investments:</i>	
General Reserve	50,000	5% Govt. Securities at cost (face value Rs. 40,000)	50,000
<i>Secured Loan.</i>		<i>Current Assets:</i>	
6% Mortgage Debentures	1,00,000	Stock	3,00,000
<i>Current Liabilities & Provisions:</i>		Debtors	2,00,000
Trade Creditors	1,50,000	Cash at Bank	50,000
Provision for Taxation	10,000		
	11,10,000		11,10,000

The assets were revalued as follows:

Land and Building Rs. 1, 00,000: Plant and Machinery Rs. 4, 50,000. The normal rate of return on capital employed for valuation of Goodwill is 10%. Goodwill should be valued on the basis of 3 years' purchase of the super profits of the company. The average annual profits of the company is Rs. 1, 06,000. 40% of the money invested in Building is treated as non-trading assets; because Rent of Rs. 10,000 is collected from the building annually. You are asked to compute the value of each Equity share. Ignore taxation.

7. The following is the Balance Sheet of XYZ Co. as on 31st December 2004:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
<i>Share Capital:</i>			
15,000 Equity Shares or Rs. 10 each fully paid	1,50,000	<i>Freehold Premises</i>	60,000
<i>Reserves and Surplus:</i>		Plant	30,000
General	60,000	Stock	1,50,000
Capital	20,000	Debtors	1,01,500
Profit & Loss	60,000	Bank	58,000
<i>Current Liabilities and Provisions:</i>		Cash	1,350
Creditors	46,850		
Income Tax payable	5,750		
Propose Dividend	17,250		
Provision for Taxation	41,000		
	1,10,850		
	4,00,850		4,00,850

Net profits (before taxation) for the past three years—

ended 31st Dec. 2002	Rs. 69,000
ended 31st Dec. 2003	Rs. 91,500
ended 31st Dec. 2004	Rs. 98,500

Freehold Premises were valued early in 2004 at Rs. 80,000. Average yield in this type of business is 15 per cent on Capital Employed.

You are required to find out the fair value of each share on the basis of above-mentioned facts, assuming the weights for 2002, 2003 and 2004 were assigned as 1, 2, and 3, respectively.

8. The following particulars are available in respect of Goodluck Limited:
- Capital 450, 60% preference shares of ` 100 each fully paid and 4,500 equity shares of Rs. 10 each fully paid.
 - External liabilities: Rs. 7,500.
 - Reserves and Surplus Rs. 35,000.
 - The average expected profit (after taxation) earned by the company Rs. 8,500. (e) The normal profit earned on the market value of equity shares (full paid) of the same type of companies is 9%.
 - 10% of the profit after tax is transferred to reserves. Calculate the intrinsic value per equity share and value per equity share according to dividend yield basis. Assume that out of total assets, assets worth of Rs.350 are fictitious.
9. The following are the Balance Sheet of H and S as at 31st December on which date H acquires all the shares of S:

	H	S		H	S
	Rs.	Rs.		Rs.	Rs.
Share Capital	5,00,000	1,00,000	Sundry Assets	7,50,000	1,90,000
Reserve		25,000	Shares in S (at cost)	2,00,000	
Profit & Loss A/c	1,00,000	15,000			
Creditors	3,50,000	50,000			
	9,50,000	1,90,000		9,50,000	1,90,000

Show the consolidated Balance Sheet.

10. From the balance sheets and information given below, prepare a Consolidated Balance Sheet:

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	80,000	12,000
Rs. 10 fully paid	1,00,000	20,000	Stock	61,000	24,000
Profit & Loss A/c	40,000	12,000	Debtors	13,000	17,000
Reserve	10,000	6,000	Bills Receivable	1,000	
Bills Payable		3,000	Shares in S Ltd. at cost	15,000	
Creditors	20,000	12,000			
	1,70,000	53,000		1,70,000	53,000

- (a) All the profits of S Ltd. have been earned since the shares were acquired by H Ltd. but there was already the Reserve of Rs. 6, 00,000 on that date.

- (b) The bills accepted by S Ltd. are all in favour of H Ltd. which has discounted Rs. 2,000 of them.
- (c) Sundry assets of S Ltd. are undervalued by Rs. 2,000.
- (d) The stock H Ltd. includes Rs. 5,000 bought from S Ltd. at a profit to the latter of 25% on cost.

11. The following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. as on 31st December 2004.

Balance Sheet as on 31st Dec. 2004

<i>Liabilities</i>	<i>H Ltd</i>	<i>S Ltd</i>	<i>Assets</i>	<i>H Ltd</i>	<i>S Ltd.</i>
	Rs.	Rs.		Rs.	Rs.
Share Capital of Re. 1 per share	10,000	8,000	Buildings	4,000	
Reserves	4,000	3,000	Plant	1,000	6,000
Bills Payable	2,000	1,000	Stock	4,000	6,000
Creditors	5,000	4,000	Shares in S Ltd	6,000	
Profit & Loss A/c	4,000	2,000	Debtors	5,000	3,000
			Bills Receivable	3,000	2,000
			Cash	2,000	1,000
	25,000	18,000		25,000	18,000

Debtors of H Ltd. include Rs 2,000 due from S Ltd. and Bills payable of H Ltd. included a bill of Rs 500 accepted in favour of S Ltd. A Loan of Rs 1,000 given by H Ltd. to S Ltd. was also included in the items of debtors and creditors respectively. Rs 500 was transferred by S Ltd. from Profit and Loss Account to Reserve out of current year's profit. Shares were purchased on 30th June 2004 at par.

Prepare consolidated Balance Sheet.

12. The following are the Balance Sheet of H and S as at 31st December on which date H acquires all the shares of S:

	H	S		H	S
	Rs.	Rs.		Rs.	Rs.
Share Capital	5,00,000	1,00,000	Sundry Assets	7,50,000	1,90,000
Reserve		25,000	Shares in S (at cost)	2,00,000	
Profit & Loss A/c	1,00,000	15,000			
Creditors	3,50,000	50,000			
	9,50,000	1,90,000		9,50,000	1,90,000

Show the consolidated Balance Sheet.

13. The following in the Tri Balance of Subhash Limited as on 31.03.2012:

Debit	Rs.	Credit	Rs.
Land at cost	110	Equity capital (shares of Rs. 10 each)	150
Plant & machinery at cost	385	10% debenture	100
Debtors	48	General reserve	65
Stock(31.03.2012)	43	Profit and loss a/c	36
Bank	10	Securities premium	20

Adjusted purchases	160	Sales	350
Factory expenses	30	Creditors	26
Administration expense	15	provision for depreciation	86
Selling expenses	15	suspense A/c	
Debenture interest	10		2
Interim dividend paid	9		

Additional information:

(a) On 31.03,2012, the company issued bonus shares to the shareholders on 1:3 basis. No entry relating to this has yet been made.

(b) The authorized share capital of the company is 25,000 shares of Rs. 10 each.

(c) The company on the advice of an independent valuer wishes to revalue the land at Rs. 1,80,000.

(d) Proposed final dividend 10%

(e) Suspense account of Rs. 2,000 represents cash received for the sale of some of the machinery on 1.04.2011. The cost of the machinery was Rs.5,000 and the accumulated depreciation thereon being Rs.4,000.

(f) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Subhash Limited's profit and loss account for the year ended 31.03.2012 and a balance sheet on that date as per the provisions of Revised Schedule VI of the Companies ACT, 1956.

14. From the balance sheets and information given below, prepare a Consolidated Balance Sheet:

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	80,000	12,000
Rs. 10 fully paid	1,00,000	20,000	Stock	61,000	24,000
Profit & Loss A/c	40,000	12,000	Debtors	13,000	17,000
Reserve	10,000	6,000	Bills Receivable	1,000	
Bills Payable		3,000	Shares in S Ltd. at cost	15,000	
Creditors	20,000	12,000			
	1,70,000	53,000		1,70,000	53,000

- (a) All the profits of S Ltd. have been earned since the shares were acquired by H Ltd. but there was already the Reserve of Rs. 6, 00,000 on that date.
- (b) The bills accepted by S Ltd. are all in favour of H Ltd. which has discounted Rs. 2,000 of them.
- (c) Sundry assets of S Ltd. are undervalued by Rs. 2,000.
- (d) The stock H Ltd. includes Rs. 5,000 bought from S Ltd. at a profit to the latter of 25% on cost.

15. The following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. as on 31st December 2004.

Balance Sheet as on 31st Dec. 2004					
Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
	Rs.	Rs.		Rs.	Rs.
Share Capital of Re. 1 per share	10,000	8,000	Buildings	4,000	
Reserves	4,000	3,000	Plant	1,000	6,000
Bills Payable	2,000	1,000	Stock	4,000	6,000
Creditors	5,000	4,000	Shares in S Ltd	6,000	
Profit & Loss A/c	4,000	2,000	Debtors	5,000	3,000
			Bills Receivable	3,000	2,000
			Cash	2,000	1,000
	25,000	18,000		25,000	18,000

- Debtors of H Ltd. include Rs 2,000 due from S Ltd. and Bills payable of H Ltd. included a bill of Rs 500 accepted in favour of S Ltd. A Loan of Rs 1,000 given by H Ltd. to S Ltd. was also included in the items of debtors and creditors respectively. Rs 500 was transferred by S Ltd. from Profit and Loss Account to Reserve out of current year's profit. Shares were purchased on 30th June 2004 at par. Prepare consolidated Balance Sheet.
16. What is the need for valuation of shares? Explain the intrinsic value method of valuation shares.
17. H Ltd. acquires all the shares of S Ltd. on 31st March, 2012 on which date the balance sheets of the two companies are as under:

Particulars	Note No.	Amounts as on 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
(1) Shareholders' funds			
(a) Share capital	1	5,00,000	2,00,000
(b) Reserves and surplus	2	1,00,000	
(2) Current liabilities		80,000	60,000
(a) Trade payables		6,80,000	2,60,000
II. Assets			
Sundry assets		4,80,000	2,60,000
Non-current investments	3	2,00,000	
		6,80,000	2,60,000

Notes:	H Ltd.	S Ltd.
1. Share Capital	₹	₹
Issued, Subscribed and Paid Up:		
Equity Shares of ₹ 10 each, fully paid	5,00,000	2,00,000
2. Reserves and Surplus		
Reserves	1,00,000	
3. Non-current Investments		
100% Equity Shares in S Ltd.	2,00,000	

Prepare a Consolidated Balance Sheet as at 31st March, 2012.

18. X Ltd. purchased 750 shares in Y Ltd. on 1.7.2006. The following were their Balance Sheets on 31.12.2006.

<i>Liabilities</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>	<i>Assets</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Buildings	2,05,000	1,25,000
Shares of Rs. 100 each	3,00,000	1,00,000	Stock	1,00,000	80,000
General Reserve			Debtors	1,00,000	40,000
1.1.2006	1,00,000	70,000	Investments	1,00,000	-
Profit & Loss A/c	1,00,000	60,000	(in Y Ltd.)		
Creditors	80,000	40,000	Bills Receivable	40,000	45,000
Bills Payable	50,000	20,000	Bank	60,000	20,000
Current Account :			Current Accounts :		
X Ltd.	-	20,000	Y Ltd.	25,000	-
	6,30,000	3,10,000		6,30,000	3,10,000

Further:

1. Bills Receivable of X Ltd. include Rs. 10,000 accepted by Y Ltd.
2. Debtors of X Ltd. include Rs. 20,000 payable by Y Ltd.
3. A cheque of Rs. 5,000 sent by Y Ltd. on 20th December was not yet received by X Ltd. till 31st December 2006.
4. Profit and Loss Account of Y Ltd. showed a balance of Rs. 20,000 on 1st January 2006.

You are required to prepare a consolidated Balance sheet of X Ltd. and Y Ltd. as on 31st December 2006.

19. The balance sheet of Toy gun Manufacturing Co. Ltd. Discloses the following financial position as at 31st March, 2013.

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Paid up capital: 30,000 shares of Rs. 10 each fully paid.	3,00,000	Goodwill at cost	30,000
Capital Reserve	60,000	Land and Building at Cost (Less: Depreciation)	1,75,000
Sundry Creditors	71,000	Plant and Machinery at Cost (Less: Depreciation)	90,000
Provision for taxation	55,000	Book Debts 98,000 Less: Provision for doubtful debts 3,000	95,000
Profit and Loss A/c	26,000	Cash at Bank	7,000
Total	5,12,000	Total	5,12,000

The following additional information is also supplied:

- Adequate provision has been made in the accounts for income tax and depreciation.
- Rate of income tax may be taken at 50%.
- The average rate of dividend declared by the company for the past 5 years was 15%.
- The reasonable return on capital invested in the class of business done by the company is 12%.

You are required to value the goodwill of the company according to

- Super Profit Method
- Capitalisation of profit method.

20. The summarised Balance Sheet of H Ltd. and its S Ltd. on 31st December 2004 are as follows:

<i>Liabilities</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>	<i>Assets</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>
Share Capital (in shares of Rs. 10 each)	5,00,000	1,00,000	Assets	5,00,000	1,70,000
Reserves	80,000	30,000	8,000 shares in S Ltd.	1,40,000	
Profit and Loss	60,000	40,000			
	6,40,000	1,70,000		6,40,000	1,70,000

S Ltd. had the credit balance of Rs 30,000 in the Reserves when H Ltd. acquired shares in S Ltd. decided to make a bonus issue out of post-acquisition profits of two shares of Rs 10 each fully paid for every five shares held. Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares. Also make the consolidated Balance Sheet after the issue of bonus shares.

21. Following are the Balance Sheets of A Ltd. and B Ltd. on 31st March, 2006:

	<i>A Ltd. Rs.</i>	<i>B Ltd. Rs.</i>		<i>A Ltd. Rs.</i>	<i>B Ltd. Rs.</i>
Pref. Capital (Rs. 10)	10,000	4,000	Assets	9,000	42,000
Equity Capital (Rs. 10)	20,000	30,000	Investments in B Ltd. :		
Reserves	4,000	1,000	2,250 Equity Shares	30,000	-
Profit & Loss	5,000	5,000	250 Pref. Shares	4,000	-
Creditors	4,000	2,000			
	43,000	42,000		43,000	42,000

	A Ltd. Rs.	B Ltd. Rs.		A Ltd. Rs.	B Ltd. Rs.
Pref. Capital (Rs. 10)	10,000	4,000	Assets	9,000	42,000
Equity Capital (Rs. 10)	20,000	30,000	Investments in B Ltd. :		
Reserves	4,000	1,000	2,250 Equity Shares	30,000	-
Profit & Loss	5,000	5,000	250 Pref. Shares	4,000	-
Creditors	4,000	2,000			
	43,000	42,000		43,000	42,000

On 1.4.2005 the date of purchase of shares of B Ltd. by A Ltd., there was debit balance of Rs. 1,000 in the P & L. A/c of B Ltd. and reserves of B Ltd. were nil. Prepare Consolidated Balance Sheet.

22. The Sun Co. Ltd. acquired 6,000 shares in the Moon Co. Ltd. on 31.12.2006. The summarised Balance Sheets of the two companies on that date were:

	Sun Ltd. Rs.	Moon Ltd. Rs.		Sun Ltd. Rs.	Moon Ltd. Rs.
Share Capital :			Sundry Assets	2,53,000	1,28,000
60,000 Shares of Rs. 5 each	3,00,000		Share in the Moon Co. Ltd.	1,00,000	
8,000 Shares of Rs. 10 each		80,000	Bills Receivable (including Rs. 1,000 from Moon Co. Ltd.)	2,000	
Capital Reserve		34,000	Debtors A/c	19,000	14,000
Revenue Reserve	20,000	10,000	Stock	30,000	10,000
Profit & Loss A/c	50,000	10,000	Current A/c : With Sun Co. Ltd.		10,000
Bills Payable (including Rs. 1,000 to Sun Co. Ltd.)		3,500	Cash at Bank	10,000	3,000
Creditors	35,000	27,500			
Moon Co. Ltd.	9,000				
	4,14,000	1,65,000		4,14,000	1,65,000

On 31st December, 2002 the Sun Co. Ltd. remitted cash Rs. 1,000 on current account to Moon Co. Ltd. On 1st January, 2007, Moon Co. Ltd., utilised a part of its capital reserve to make a bonus issue of one share for every four shares held. There is a contingent liability for bills discounted Rs. 1,200.

23. The balance sheet of Toy gun Manufacturing Co. Ltd. Discloses the following financial position as at 31st March, 2013.

Liabilities	Rs.	Assets	Rs.
Paid up capital: 30,000 shares of Rs. 10 each fully paid.	3,00,000	Goodwill at cost	30,000
Capital Reserve	60,000	Land and Building at Cost (Less: Depreciation)	1,75,000
Sundry Creditors	71,000	Plant and Machinery at Cost (Less: Depreciation)	90,000
Provision for taxation	55,000	Book Debts 98,000 Less: Provision for doubtful debts 3,000	95,000
Profit and Loss A/c	26,000	Cash at Bank	7,000
Total	5,12,000	Total	5,12,000

The following additional information is also supplied:

- Adequate provision has been made in the accounts for income tax and depreciation.
- Rate of income tax may be taken at 50%.
- The average rate of dividend declared by the company for the past 5 years was 15%.
- The reasonable return on capital invested in the class of business done by the company is 12%.

You are required to value the goodwill of the company according to

- Super Profit Method
- Capitalisation of profit method.

26. H Ltd. acquired the shares on 1st April, 2011 on which date General Reserve and Profit and Loss Account of S Ltd. showed balances of Rs 40,000 and Rs 8,000 respectively. No part of Preliminary Expenses was written off during the year ending 31st March, 2012.

Prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012. The following are the balance sheets of H Ltd and S Ltd. as at 31st March, 2012:

₹

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	5,00,000	2,00,000
Reserves and surplus	2	1,60,000	79,000
Current liabilities			
Trade payables		80,000	60,000
		<u>7,40,000</u>	<u>3,39,000</u>
II. Assets			
Non-current assets			
Fixed assets		3,00,000	1,00,000
Non-current investments	3	1,62,400	
Current assets		2,77,600	2,39,000
		<u>7,40,000</u>	<u>3,39,000</u>

Notes:	H Ltd.	S Ltd.
	₹	₹
1. Share Capital		
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid up	<u>5,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus	₹	
General Reserve		
H Ltd.	1,00,000	
S Ltd.	50,000	
Less: Preliminary Expenses	<u>(6,000)</u>	44,000
Surplus i.e. credit balance of Profit & Loss A/c	<u>60,000</u>	<u>35,000</u>
	<u>1,60,000</u>	<u>79,000</u>
3. Non-current Investments		
60% Equity Shares in S Ltd. at cost		<u>1,62,400</u>

27. Prepare a summarized balance sheet of a company as per schedule III of the companies Act 2013 taking imaginary figures.
28. Define contingency and events occurring after balance sheet date.
29. Mention the expenses which should not be included in 'preliminary expenses'. Can preliminary expenses be written off.
30. Can dividend be declared out of profit on re-issue of forfeited shares?

UNIT - III

I MULTIPLE CHOICE QUESTIONS:

1. When two or more companies carrying on similar business decide to combine, a new company is formed, it is known as
 - A. Amalgamation
 - B. Absorption
 - C. Internal reconstruction
 - D. External reconstruction

ANSWER: A

2. Accumulated profits include:
A. Provision for doubtful debts
B. Insurance fund
C. Employee's provident fund
ANSWER: B
3. Preliminary expenses are transferred by the vendor company at the time of absorption to:
A. Purchasing company's account
B. Realisation account
C. Equity shareholder's account
ANSWER: C
4. Two companies x ltd. And y ltd go into liquidation to form a new company, z ltd. It is case of:
A. Absorption
B. External reconstruction
C. Amalgamation
ANSWER: C
5. When one of the existing companies take over business of another company or companies, it is known as
A. Amalgamation
B. Absorption
C. Internal reconstruction
D. External reconstruction
ANSWER: B
6. While calculating purchase price, the following values of assets are considered
A. Book value
B. New values fixed
C. Average values
D. Market values
ANSWER: D
7. Which of the following statement is correct?
A. The amount of Goodwill or Capital Reserve is found out in the books of purchasing company only
B. The amount of Goodwill or Capital Reserve is found out in the books of vendor company only.
C. $\text{Goodwill} = \text{Net Assets} - \text{Purchase price}$
D. The face value of shares of purchasing company will be taken in to account while calculating purchase consideration.
ANSWER: A

8. If the two companies have different accounting policies in respect of the same item, then they make necessary changes to adopt accounting policies.

- A. Lifo method
- B. Fifo method
- C. Weighted method
- D. Uniform

ANSWER D

9. The Amalgamation Adjustment Account appears in the books, it is shown under the heading of in the balance sheet.

- A. Reserve and Surplus
- B. Fixed Assets
- C. Investments
- D. Miscellaneous expenditure

ANSWER: D

10. If amalgamation is in the, the General Reserve or Profit and Loss A/c balance will not be shown in the balance sheet.

- A. Form of Merger
- B. Form of purchase
- C. Net assets method
- D. Consideration method

ANSWER: B

11. If the intrinsic values of shares exchanged are not equal, the difference is paid in

- A. Cash
- B. Debenture
- C. Pref. share
- D. Assets

ANSWER: A

12. In case of, one existing company takes over the business of another company and no new company is formed.

- A. Amalgamation
- B. Absorption
- C. Reconstruction
- D. None of the Above

ANSWER: B

13. In amalgamation of two companies

- A. Both companies lose their existence
- B. Both companies continue
- C. Any one company continues

ANSWER: A

14. When purchasing company pays purchase consideration, it will be debited to
A. Business purchase account
B. Assets account
C. Liquidator of selling company's account
ANSWER: C
15. When the Vendor (seller) company agrees to bear liquidation expenses, it will debit
A. Realisation Account
B. Bank Account
C. Goodwill Account
ANSWER: A
16. When the purchasing company does not take over a particular liability and the vendor company pays that liability, it will debit it to
A. Realisation Account
B. Bank Account
C. Liability Account
ANSWER: A
17. When the Net Assets are less than the Purchase Consideration, the difference will be
A. Debited to Goodwill A/c.
B. Debited to General Reserve
C. None of these
ANSWER: A
18. While calculating purchase consideration values of assets is to be considered.
A. Book value
B. Revalued price
C. Average price
D. Capital
ANSWER: B
19. Net Assets minus Capital Reserve is _____
A. Goodwill
B. Total assets
C. Purchase consideration
D. None of these
ANSWER: C
20. Both of the old companies will not exist in
A. Internal reconstruction
B. Absorption
C. External reconstruction
D. Amalgamation
ANSWER: D

21. The shares received from the new company is recorded at
A. Face value
B. Market value
C. Average price
D. None of these
ANSWER: B
22. If the market price of the shares to be given for Purchase Consideration at the time of absorption, of the share is to be determined
A. Fair Value
B. Face Value
C. Intrinsic Value
D. Yield Value
ANSWER: C
23. Net Assets of R.D.Co. for Purchase Consideration worth Rs. 2,00,000. At the time of absorption, the company has paid 16,000 equity shares each of Rs.10 each at 10% premium, then remaining cash will be –
A. Rs. 24,000
B. Rs. 42,000
C. Rs. 40,000
D. Rs. 60,000
ANSWER: A
24. Kiran Co's Balance Sheet shows Fixed Asset Rs. 2,46,500. At the time of absorption calculation of Net Assets is 15% less than the market value, then market value of such fixed assets is
A. Rs. 2,83,475
B. Rs. 2,09,525
C. Rs. 2,90,000
D. None of these
ANSWER: C
25. X Ltd. goes into liquidation and an existing company Z Ltd. purchases the business of X Ltd. It is a case of—
A. Absorption
B. External reconstruction
C. Amalgamation.
ANSWER: A
26. Which accounting standard is applicable in respect of Accounting for Amalgamation issued by ICAI?
A. AS 14
B. AS 21
C. AS 3
D. AS 6
ANSWER: A

27. The method applicable for amalgamations in the nature of merger is:
A. Purchase method
B. Pooling of interest method
C. Yield method
D. Net asset method
ANSWER: B
28. Purchase method is applicable in case of:
A. Amalgamation in the nature of merger
B. Amalgamation in the nature of purchase
ANSWER: B
29. A New company is formed in case of:
A. External reconstruction
B. Amalgamation
C. Both A & B
D. None
ANSWER: C
30. A new company has to be formed in case of absorption:
A. True
B. False
ANSWER: B
31. List 'B' contributories consists of those who were the members of the company during ____ months preceding the date of winding up.
A. 9
B. 12
C. 6
D. 5
ANSWER: B
32. Voluntary winding up:
A. If period fixed for the company is expired.
B. If company passes a special resolution the company wound up voluntarily.
C. Members voluntary winding up is applicable to solvent companies only.
D. All of the above
ANSWER: D
33. Compulsory winding up:
A. If a company unable to pay its debt
B. If the number of members of company reduced below statutory limit.
C. If a company does commence its business within a year from its incorporation.
D. All of the above.
ANSWER: D

34. A company being a creation of law cannot die a natural death. It comes to an end by law through the process of liquidation.
A. TRUE
B. FALSE
ANSWER: A
35. A contributory is
A. A creditor
B. A shareholder
C. A debenture holder
D. A convertible debenture holder
ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

1. Write short note on internal reconstruction.
2. Write short note on external reconstruction.
3. What is the need for internal reconstruction?
4. What do you understand by purchase construction?
5. Distinguish between amalgamation in the nature of merger and amalgamation in the nature of purchase.
6. Difference between amalgamation, absorption and external reconstruction.
7. Write short note on the reconstruction scheme.
8. What is dissolution?
9. What is liquidation?
10. The purchasing company agrees to issue four shares of Rs. 10 each for every three shares of Rs. 10 each of the vendor company. The total numbers of shares of the vendor company are 10,000. The market price of each share of the purchasing company is Rs. 15. Find out purchase price.
11. What is purchase consideration and explain two methods for calculating purchase consideration ?
12. Explain Pooling of Interest Method
13. Differentiate between winding up of a company and dissolution of a company.
14. State the various methods by which the winding up of a company can be brought about.
15. State the circumstances under which a liquidator would have to make a call on partly paid shares.
16. What are preferential creditors? State the various types of preferential creditors in the event of the company's winding up.
17. Briefly explain the types of Amalgamation?
18. Explain various methods for calculation of purchase consideration with regard to amalgamation of companies.
19. What are the conditions to be satisfied in case of amalgamation in the nature of merger as per accounting standard 14.
20. Explain the various factors that you will keep in mind while framing a reconstruction scheme.

21. Differentiate between external reconstruction and internal reconstruction.
22. Explain how amalgamation is different from external reconstruction.
23. X Ltd. is acquired by Y Ltd., the consideration being the takeover of liabilities; the payment of cost of acquisition as a part of purchase consideration not exceeding Rs. 20,000 (actual cost Rs. 17,000); the payment of the debentures Rs. 1,00,000 at a premium of 10% in 9% debentures issued at par; and the payment of Rs. 16 per share in cash and allotment of one 145 preference share of Rs. 10 each and 6 equity shares of Rs. 10 each fully paid for every 4 shares in X Ltd. The number of shares of the vendor company (X Ltd.) is 2, 00,000 of Rs. 10 each fully paid. Calculate purchase consideration as per AS-14.
24. Blue Ltd. and Star Ltd. were amalgamated on and from 1st April, 2012. A new company called Yellow Star Ltd. was formed to take over the business of the above said companies. The balance sheets of Blue Ltd. and Star Ltd. as on 31st March, 2012 are given here under:

	Blue Ltd.Rs. (in lakhs)	Star Ltd. (in lakhs)
Liabilities:		
Share capital:		
Equity shares of Rs. 100 each	2,000	1,600
15% preference share of Rs. 100 each	800	600
Revaluation reserve	200	160
General reserve	400	300
Profit and loss account	160	120
12% debenture of Rs. 100 each	192	160
Current liabilities	<u>408</u>	<u>190</u>
	<u>4,160</u>	<u>3,130</u>
Assets:		
Fixed assets	2,400	2,000
Current assets loans and advances	<u>1,760</u>	<u>1,130</u>
	<u>4,160</u>	<u>3,130</u>

Additional Information:

- (i) Preference shareholders of Blue Ltd. and Star Ltd. have 'received same number of 15% preference shares of Rs. 100 each in the new company.
 - (ii) 12% Debentures of Blue Ltd. and Star Ltd. are discharged by the new company by issuing adequate number of 16% debentures of Rs.100 each to ensure that they continue to receive the same amount of interest.
 - (iii) Yellow Star Ltd. has issued 1.5 equity shares for each equity share of Blue Ltd. and 1 equity share for each equity share of Star Ltd.
The face value of shares issued by YellowStar Ltd. is Rs.100 each. You are required to prepare the balance sheet of Yellow Star Ltd. as on 1st April, 2012 after the amalgamation has been carried out using the 'pooling of interest method.'
25. What are the various modes of winding up of a company?
 26. Write short note on purchase consideration as per AS 14.
 27. Explain amalgamation in the nature of purchase.

28. How is amalgamation in the nature of merger different from amalgamation in the nature of purchase.
29. Provide different methods by which alteration of share capital can be done.
30. Differentiate between cancellation of unissued shares and refunding surplus capital.

III LONG ANSWER TYPE QUESTIONS:

1. What are the conditions which must be satisfied for an amalgamation in the nature of merger?
2. Distinguish between pooling of interest and the purchase method of recording transactions relating to amalgamation.
3. Note on liquidator final statement of account.
4. Who are preferential creditors as per section 530?
5. The Balance Sheet of Z Ltd. and A Ltd. as on September 30, 2006 are given below:

<i>Liabilities</i>	<i>Z Ltd.</i>	<i>A Ltd.</i>	<i>Assets</i>	<i>Z Ltd.</i>	<i>A Ltd.</i>
Equity Share Capital (Rs. 10 each)	2,00,000	4,00,000	Sundry Assets	3,10,000	6,00,000
Reserve and Surplus	40,000	1,00,000	Loan to A Ltd.	30,000	—
9% Debentures (Rs. 100 each)	1,00,000	—	Investments —5,000 shares of A Ltd.	50,000	—
Loan from Z Ltd.	—	30,000			
Sundry creditors	50,000	70,000			
	3,90,000	6,00,000		3,90,000	6,00,000

A Ltd. propose to take over Z Ltd. on the following terms:

- (1) A Ltd. will issue a sufficient number of its shares @ Rs. 11 each and pay Re. 0.50 cash per share held by members of Z Ltd.
- (2) 9% debentures of Z Ltd. are to be paid at 8% premium by issue of a sufficient number of 10% debentures of A Ltd. @ Rs. 90.

Assuming that the take-over has been complete, show Journal entries and ledger accounts in the books of the Companies and draft the Balance Sheet in the books of A Ltd.

6. Distinguish between amalgamation in the nature of merger and amalgamation in the nature of purchase with the help of an illustration.
7. The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2.5 % on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of Rs.100 each fully paid up.

50,000 Equity shares of Rs.10 each fully paid up.

30,000 Equity shares of Rs.10 each, Rs.8 paid up.

Assets realized Rs.20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	Rs.
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (assets realized rs. 3,20,000)	3,50,000
Debenture holder having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of Rs.2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,060 shares and also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

8. The following are the summarized Balance Sheet of X Ltd. and Y Ltd. as on 31st March, 2006:

X Ltd.			
	Rs.		Rs.
Share Capital	40,000	Sundry Assets	50,000
Profit and Loss Account	5,000	Shares in Y Ltd.	
15% Debentures	10,000	(1,500 shares)	20,000
Creditors	15,000		
	70,000		70,000

Y Ltd.			
	Rs.		Rs.
Share Capital (of Rs. 10 each)	20,000	Sundry Assets	34,000
Creditors	14,000		
	34,000		34,000

A new company, XY Ltd., is formed to acquire the entire business of X Ltd. and Y Ltd. For this purpose, sundry assets of X Ltd. were valued at Rs. 30,000 and sundry assets of Y Ltd. at Rs. 20,000. The consideration is to be discharged in shares of the new company. Close the books of X Ltd. and Y Ltd.

Also give journal entries in the books of XY Ltd. for the purchase of business.

9. The following are the balance sheets of Pratiksha Ltd. and Nidhi Ltd. as on 1st March, 2006:

Balance Sheet of Pratiksha Ltd.
as on 31st March, 2006

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital : 20,000 shares of Rs. 10 each	2,00,000	Fixed assets	3,50,000
General reserve	2,50,000	Investments	2,50,000
Profit and Loss A/c	1,50,000	Current assets	3,00,000
Debentures	1,75,000		
Current liabilities	1,25,000		
	9,00,000		9,00,000

Pratiksha Ltd. agrees to take over Nidhi Ltd. Find out the ratio of exchange of shares on the basis of book values.

10. Moon Company Ltd. decided to reconstruct and consequently went into voluntary liquidation.

The Balance Sheet of the Company on 31st March 2006 was as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital: 4,000 7% Preference Shares of Rs. 10 each	40,000	Buildings	31,800
60,000 Equity Shares of Re. 1 each	60,000	Plant	16,500
Capital Reserve	1,210	Furniture	1,620
Bank Loan	1,440	Stock	7,350
Creditors	8,610	Debtors	13,400
		Less : Reserve	300
Bills Payable	420	Cash	43,100
		Profit and Loss A/c	40
	1,11,680		41,270
			1,11,680

A new company called New Moon Co. Ltd. was formed to acquire the following assets of Moon Co. at the values stated: Buildings Rs. 20,000, Plant Rs. 12,000, Furniture Rs. 2,000 and Stock Rs. 6,000.

The purchase consideration was to be satisfied by the allotment of 20,000 10% preference shares of Rs. 15 each, credited with Rs. 10 paid-up.

The preference shareholders in the old company accepted the preference shares in the new company in full satisfaction of the amount due to them.

The book debts realised Rs. 12,275 and creditors were discharged by the payment of Rs. 8,134. Bank Loan and Bills Payable were paid in full. Cost of winding up came to Rs. 1,071.

Show the ledger accounts in the books of the old company and journal entries in the books of the new company. Also give the Balance Sheet of the new company assuming that a call of Rs. 5 per share was made on equity shares and paid in full, and preliminary expenses amounted to Rs. 1,000.

11. The following information has been extracted from the balance sheets of P Ltd. and S Ltd. as on 31st March, 2012:

	P Ltd.	S Ltd.
	₹ '000	₹ '000
Liabilities :		
Equity Share Capital, ₹ 10 each, fully paid	72,000	30,000
11 % Preference Share Capital, ₹ 10 each, fully paid		17,000
General Reserve	8,000	6,500
Profit and Loss Account	7,500	4,000
9 % Debentures, ₹ 100 each, fully paid		5,000
Trade Payables	11,500	3,500
	<u>99,000</u>	<u>66,000</u>
Assets :		
Land and Buildings	25,000	
Plant and Machinery	32,500	29,000
Furniture and Fittings	5,750	9,410
Inventories	21,500	17,390
Trade Receivables	7,250	5,200
Balance with Bank	7,000	5,000
	<u>99,000</u>	<u>66,000</u>

P Ltd. takes over S Ltd. on 1st April, 2012, and discharges consideration for the business as follows:

- (i) Issued 35 lakh fully paid equity shares of Rs 10 each at par to the equity shareholders of S Ltd.
- (ii) Issued fully paid 12% preference shares of Rs 10 each to discharge the preference shareholders of S Ltd. at a premium of 10%.
It is agreed that the debentures of S Ltd. will be converted into equal number and amount of 10% debentures of P Ltd.

You are required to show the balance sheet of P Ltd. assuming that:

- (i) The amalgamation is in the nature of merger, and
- (ii) The amalgamation is in the nature of purchase.

12. You are asked by a liquidator of a company to prepare a statement of account to be laid before a meeting of the shareholders from the following:

Balance Sheet of the company on the date of liquidation on 1.1.1993

	Rs.		Rs.
<i>Share Capital :</i>		Fixed Assets	4,00,000
4,000 Equity Shares of Rs. 100 each, called Rs. 80	3,20,000	Book-Debts	3,00,000
1,000 Pref. Shares of Rs. 100 each, called Rs. 70	70,000	Loss as on Date	1,00,000
Loan from Bank			
(Secured on Building and Machinery)	1,50,000		
Trade Creditors	2,60,000		
	<u>8,00,000</u>		<u>8,00,000</u>

The assets realised as follows: 1.4.1994 : Fixed Assets Rs. 1,00,000; Book Debts Rs. 1,00,000, Expenses paid Rs. 4,000. 1.6.1994 : Fixed Assets (final) Rs. 2,00,000, Book Debts Rs. 1,00,000. 1.8.1994 : Book Debts (final payment) Rs. 50,000. The liquidator is entitled to 5% on collections and 2% on the account paid to Equity shareholders.

Prepare the statement on the assumption that disbursements are made in accordance with law, as and when cash is available.

13. O.P. Ltd. resolved to wind-up as on 31.12.1999 as members' voluntary winding up.

The Trial Balance as on that date was:

	Dr. Rs.		Cr. Rs.
Equity Share Capital (Rs. 10 fully paid)	—		1,50,000
8% Cumulative Preference Shares (Rs. 10 fully paid)	—		30,000
Plant—Cost	1,60,000		—
Depreciation Provisions	—		30,000
Stock on 31.12.1999	66,000		—
Sundry Debtors and Creditors	50,000		60,000
Profit and Loss A/c Balance on 1.1.1999	—		35,000
Loss in 1999	15,000		—
Preference Dividend—paid for $\frac{1}{2}$ year up to June 30	1,200		—
Preliminary Expenses	4,800		—
Bank	8,000		—
	<u>3,05,000</u>		<u>3,05,000</u>

On 1.1.2000, the liquidator sold some of the assets to O.P. Ltd. (2000) for the following valuations:

Plant Rs. 90,000; Goodwill Rs. 25,000; Stock Rs. 40,000. The purchase consideration was satisfied by 8% Debentures of Rs. 75,000 issued at 4% Discount and the balance in Cash.

Preference shareholders are to be paid dividend up to the date of commencement of liquidation and 5% premium before anything is paid to equity shareholders.

Debtors realised Rs. 40,000 gross, collection expenses being Rs. 500. Six month's Debenture interest was received from OP Ltd. (2000) on 30.6.2000. The creditors were discharged subject to 5% discount. Liquidation expenses amounted to Rs. 800 and liquidator's remuneration was paid Rs. 4,000.

Preference shareholders were paid in cash with premium and dividend. The debentures and cash balance were paid to the equity shareholders.

Prepare:

- (a) Statement of Affairs as on 31.12.1999 on the basis of facts known as on that date and the agreement with OP Ltd. (2000);
- (b) Deficiency Account up to 31.12.1999; and
- (c) Liquidator's Statement of Account.

The liquidation of P. Ltd. commenced on 1st April 1987, and the assets were insufficient to pay the creditors. Unpaid amounts could not be realised from List A contributories.

From the following particulars, prepare a statement of liability of List B contributories:

Shareholders	No. of shares transferred	Date of transfer	Debts outstanding on the date of transfer
			Rs.
Piu	500	1st May 1986	3,000
Mau	750	1st July 1986	3,750
Sampa	150	1st Nov. 1986	4,000
Raja	100	1st Feb. 1987	4,750

All the shares were of Rs. 10 each of which Rs. 15 paid-up.

14. Following are the details of certain share transfers that took place prior to liquidation and the amount of creditors remaining unpaid:

Shareholders	No. of Shares transferred	Date when ceased to be member	Creditors remaining unpaid and outstanding on the date of ceasing to be a member
			Rs.
L	2,000	31-8-1995	8,000
M	1,800	20-9-1995	12,000
N	1,200	15-11-1995	17,400
O	1,000	22-4-1996	18,600
P	500	10-7-1989	22,000

All the shares were of Rs. 10 each, on which Rs. 5 per share had been called and paid up. expenses of liquidation, remuneration to liquidator etc., work out the amount to be realised above contributories.

15. X Ltd and Z Ltd amalgamated on and from 1st January 2015. A new company XZ Ltd was formed to take over the business of the existing companies.

Balance sheet as on 31.12.2014

Liabilities	X Ltd	Z Ltd	Assets	X Ltd	Y Ltd
Equity share capital Rs.10	60,00,000	70,00,000	Sundry Fixed assets	85,00,000	75,00,000
General reserve	15,00,000	20,00,000	Investment	10,50,000	5,50,000
Profit & Loss A/c	10,00,000	5,00,000	Stock	12,50,000	27,50,000
Statutory Reserves	5,50,000	2,00,000	Debtors	18,00,000	40,00,000
12% Debentures	30,00,000	40,00,000	Bank & Cash	4,50,000	4,00,000
Sundry creditor	10,00,000	15,00,000			
	1,30,50,000	1,52,00,000		1,30,50,000	1,52,00,000

Z Ltd issued enough number equity shares for the net assets , compute purchase consideration and mode of discharge thereof draft the balance sheet of XZ Ltd. After amalgamation.

16. X Ltd. agrees to acquire the business of Y Ltd. on the following terms:
- The shareholders of Y Ltd. are to be paid Rs. 25 in cash and are offered four shares of Rs. 10 each in X Ltd. for every share in Y Ltd. Y Ltd. has 50,000 equity shares outstanding as on the date of amalgamation.
 - The debenture holders holding 5,000 debentures of Rs. 100 each are to be redeemed at a premium of 10%.
 - Cost of liquidation amounting to Rs. 25,000 are to borne by X Ltd.
- Calculate the value of purchase consideration.
17. A Ltd. agrees to absorb B Ltd., the consideration being:
- The assumption of trade liabilities of Rs. 50,000.
 - The payment of the costs of liquidation Rs. 2,000.
 - The redemption of 80% debentures of Rs. 6, 00,000 at a premium of 10%.
 - The payment of Rs. 20 p.a. share in cash and the exchange of two fully paid Rs. 10 shares in A Ltd. for every share of Rs. 25 in B Ltd. The share capital of the vendor company consists of 20,000 shares of Rs. 25 each fully paid.

Calculate the purchase consideration as per AS-14.

18. Difference between amalgamation, absorption and external reconstruction. Explain the calculation of purchase consideration by any one method.
19. Zuari Ltd. agrees to absorb the business of Agro India Ltd. and to take over the Assets and Liabilities at their Balance Sheet value, in exchange for which it is to issue 12 shares of Rs. 10 each for every share of Rs. 100 in the Agro India Ltd. The expenses of absorption Rs. 10,000 will be paid by Zuari Ltd.

On the date of absorption i.e., 31st March, 2014, the Balance Sheets of the two companies were as under:

Zuari Ltd.

Liabilities	(₹)	Assets	(₹)
1,00,000 Equity Shares of ₹ 10 each	10,00,000	Land and Buildings	5,00,000
General Reserve	80,000	Machinery and Plant	3,00,000
Creditors	1,00,000	Goodwill	1,00,000

Liabilities	(₹)	Assets	(₹)
		Stock	60,000
		Debtors	1,20,000
		Bank	1,00,000
Total	11,80,000	Total	11,80,000

Agro India Ltd.

Liabilities	(₹)	Assets	(₹)
5,000 Equity Shares of ₹ 10 each	5,00,000	Land and Buildings	3,00,000
General Reserve	35,000	Machinery and Plant	2,00,000
Bills Payable	35,000	Sundry Debtors	55,000
Creditors	40,000	Less: Provision	5,000
		Stock	25,000
		Bank	35,000
Total	6,10,000	Total	6,10,000

Show the Journal Entries in the books of the Zuari Ltd. and Agro India Ltd. Also prepare opening Balance Sheet of Zuari Ltd. immediately after absorption.

20. Explain the lumpsum payment method of calculating purchase consideration in detail.
21. The Balance Sheet of A Co. Ltd. after amalgamation as at 31st March, 2013 was as under:

Liabilities	(₹)	Assets	(₹)
Equity Share of ₹ 10 each	6,00,000	Goodwill	1,00,000
Retained Earnings	2,80,000	Land and Building	6,40,000
15% Debentures	1,00,000	Stock	1,68,000
Creditors	20,000	Debtors	36,000
		Cash	56,000
Total	10,00,000		10,00,000

Note:

Contingent Liability in respect of a pending suit Rs. 10,000.

On 1st April, 2013 B Co. Ltd. absorbed the business of A Co. Ltd.

The Purchase Consideration was agreed as:

1. A cash payment of Rs. 2.50 for every Rs. 10 share in A Co. Ltd.
2. The issue of 1, 35,000 equity shares of Rs. 10 each fully paid in B Co. Ltd.
3. The issue of such an amount of fully paid 14% debentures in B Co. Ltd. at 96% as is sufficient to discharge 15% debentures in A Co. Ltd. at a premium of 20%.

B Co. Ltd. valued land and building at Rs. 12, 00,000; stock at Rs. 1, 42,000; and debtors at book value subject to 5% provision for doubtful debts. B Co. Ltd. also agreed to take over the contingent liability, which ultimately materialized for Rs. 7,000. Prepare Ledger Accounts in the books of A Co. Ltd. and pass journal entries in the books of B Co. Ltd.

22. Explain the Liquidator's Final Statement of Account and provisions for it.
23. Explain the net asset method of calculating purchase consideration in detail.
24. To companies Weak Ltd. and Feeble Ltd. amalgamate and form a new company Recovery Ltd.

The Balance Sheets of two companies are as under:

Liabilities	Weak Ltd.	Feeble Ltd.	Assets	Weak Ltd.	Feeble Ltd.
	(₹)	(₹)		(₹)	(₹)
Equity Shares of ₹ 10 each	8,00,000	5,00,000	Goodwill	1,40,000	—
Profit and Loss Account	1,00,000	2,00,000	Stock	3,10,000	3,00,000
10% Debentures	1,20,000	—	Debtors	7,50,000	5,00,000
Creditors	1,80,000	1,00,000			
	12,00,000	8,00,000		12,00,000	8,00,000

The past average profits of Weak Ltd. and Feeble Ltd. were Rs. 60,000 and Rs. 40,000 respectively. Recovery Ltd. agreed to take over the two companies for the sum of Rs. 15, 00,000 and to discharge all liabilities. Rs. 3, 00,000 of the purchase consideration be paid in cash and balance in equity shares.

It is agreed that before being amalgamated, the debtors of the two companies will be written-down to the extent of 10%. The profit on conversion is to be divided between the two companies in the same proportion as to the profit previously earned by them. Show Business Purchase Account in the books of Recovery Ltd. Also show how the Equity Shareholders Account of Weak Ltd. and Feeble Ltd. be closed.

25. What is purchase consideration? Explain all the methods of calculating purchase consideration.
26. Explain Reorganisation Through Surrender of shares. Give necessary journal entries.
27. Explain capital reduction method in internal reconstruction.

28. Difference Between Internal and External Reconstruction and explain different methods of internal reconstruction.
29. On 31-12-2XX9, B Ltd. had 20,000, ` 10 Equity Shares as authorised capital and the shares were all issued on which ` 8 was paid up. In June, 2X10 the company in general meeting decided to sub-divide each share into two shares of ` 5 with ` 4 paid up. In June, 2X11 the company in general meeting resolved to consolidate 20 shares of ` 5, ` 4 per share paid up into one share of ` 100 each, ` 80 paid up.
Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-2XX9, 31-12-2X10 and 31-12-2X11.
30. C Ltd. had ` 5,00,000 authorised capital on 31-12-2XX9 divided into shares of ` 100 each out of which 4,000 shares were issued and fully paid up. In June 2X10 the Company decided to convert the issued shares into stock. But in June, 2X11 the Company re-converted the stock into shares of ` 10 each fully paid up.
Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2XX9, 31-12-2X10 and 31-12-2X11.

UNIT - IV

I MULTIPLE CHOICE QUESTIONS:

1. A general provision for doubtful debts in case of standard assets is to be made of:
 - A. 1%
 - B. 0.40%
 - C. 5%
 ANSWER: B
2. Appropriations out of profits in case of banking company are to be made after 1.4.91 in:
 - A. Profit and loss appropriation A/c
 - B. Profit and loss A/c
 - C. Balance sheet
 ANSWER: B
3. Rebate on bills discounted for a banking company is:
 - A. Expense
 - B. Income
 - C. A liability
 ANSWER: C
4. Policy maturing only on the death of the insured is termed as:
 - A. Endowment policy
 - B. Whole life policy
 - C. With profit policy
 ANSWER: B

5. Bonus payable only on the maturity of the policy is termed as:
A. Cash bonus
B. Reversionary bonus
C. Interim bonus
ANSWER: B
6. Bonus in reduction of premium appears in the revenue account.
A. As an expense
B. As an income
C. No where
ANSWER: A
7. Expenses of management not applicable to any particular business are shown in:
A. Revenue A/C
B. Profit and loss A/C
C. Profit and loss appropriation a/c
ANSWER: B
8. Legal fees with respect to claims Is shown in:
A. Revenue a/c
B. Profit and loss a/c
C. Profit and loss appropriation a/c
ANSWER: A
9. In the financial statements of electricity companies, preliminary expenses account appears on-
A. Assets side of the general balance sheet
B. Debit side of revenue a/c
C. Debit side of income and expenditure a/c
D. Debit side of receipt and expenditure on capital a/c
ANSWER: D
10. The income of the banking interest comes from:
A. Deposit Received
B. Interest on Deposit
C. Interest on Loan
D. All of the above
ANSWER: A
11. The open banking institution of India is:
A. Central Bank of India
B. Reserve Bank of India
C. State Bank of India
D. SEBI
ANSWER: B

12. Reserve for unexpired risk is created as ____ of the net premium income in case of marine insurance
A. 100%
B. 10%
C. 90%
D. 50%
ANSWER: A
13. Revenue account is _____ with the total claims paid during the year
A. Debit
B. Credit
ANSWER: A
14. A policy which matures on the policy holder reaching a certain age or on his death is called as:
A. Endowment policy
B. Insurance policy
C. Whole life policy
ANSWER: A
15. A formal written document containing the terms of contract of insurance is called?
A. Endowment policy
B. Insurance policy
C. Whole life policy
ANSWER: B
16. A POLICY WHICH MATURES ON THE DEATH OF THE INSURED PERSON IS?
A. Endowment policy
B. Insurance policy
C. Whole life policy
ANSWER: C
17. The form of Revenue account is common for all types of insurance business.
A. False
B. True
ANSWER: A
18. Accounting year of the banking company ends on:
A. 31st March
B. 31st December
C. 30th June
D. 20th September
ANSWER: A

19. The subscribed capital of a banking company must be at least ___ of its authorized capital
- A. One-half
 - B. Half
 - C. Twice
 - D. Thrice
- ANSWER: A
20. An asset which ceases to generate income for the bank is called?
- A. Non-performing asset
 - B. Current asset
 - C. Fixed asset
- ANSWER: A
21. Which of the following is not part of criteria laid down by RBI for NPA ?
- A. Interest on loan remains overdue for a period of 90 days.
 - B. Interest on loan taken for a long-duration agricultural crop remains unpaid for one crop season.
 - C. Interest on loan taken for a short duration agricultural crop remains unpaid for two crop seasons.
 - D. Interest on loan taken to purchase personal asset remains overdue for 60 days.
- ANSWER: D
22. The accounting year of the banking company ends on:
- A. 31st March
 - B. 31st December
 - C. 30th April
 - D. 30th September
- ANSWER: A
23. The share capital of the company includes only ordinary and equity shares.
- A. True
 - B. False
- ANSWER: B
24. A Banking company cannot grant loan to any of its director.
- A. True
 - B. False
- ANSWER: A.
25. The provision in case of loss assets is required to be made of:
- A. 100%
 - B. 1%
 - C. 5%
 - D. .40%
- ANSWER: A

26. Reserve for unexpired risk is created as ___% of the net premium income in case of marine insurance.
- 50%
 - 100%
 - 20%
 - 10%
- ANSWER: B
27. Reserve for unexpired risk is created as ___% of the net premium income in case of fire insurance.
- 50%
 - 100%
 - 20%
 - 10%
- ANSWER: A
28. The form of Revenue Account is common for all types of insurance business.
- True
 - False
- ANSWER: B
29. Valuation balance sheet is prepared only in case of life insurance business.
- True
 - False
- ANSWER: A

II SHORT ANSWER TYPE QUESTIONS:

- Write short note on assets classification in case of banking company
- Write short note on reasonable return in case of electricity company
- Explain the legal provisions relating to the final accounts of a banking company.
- What do you understand by: standard assets?
- What do you understand by sub-standard assets?
- What do you understand by doubtful assets?
- What do you understand by loss assets?
- Mention the various provisions to be made by a banking company in regard to its quality of assets?
- “Once an asset becomes non-performing, it remains non-performing asset forever.”
Comment.
- Explain non-performing assets.
- Classify the advances in the case of a banking company.
- Explain the legal salient features of the directives issued by the Reserve Bank of India to schedule commercial banks of concepts on income recognitions and provision for bad and doubtful debts.
- What is the % of NPA provision to be made by a banking company in regard to its quality of assets.

14. What do you understand by catastrophe reserve.
15. Write short note acceptance, endorsement and other obligation.
16. Explain the contingency reserve in case of electricity companies.
17. Write short note on annuity.
18. Write short note on claims.
19. Write short note on reinsurance.
20. Write short note on classification of investment by the banking company.
21. Write short note on unexpired risk reserve.
22. Write short note on classification of advances by the banking company
23. Briefly explain "Reserve for unexpired risk" under General insurance business.
24. Significant features of accounting systems of banks
25. From the following information, find out the amount of provision to be shown in the Profit and Loss Account of a bank:

	Rs. (in Lakhs)
Assets :	
Standard	8,000
Sub-standard	6,000
Doubtful : for one year	1,000
for three years	1,600
for more than three years	400
Loss Assets	1,200

26. Explain why valuation balance sheet is prepared in case of life insurance.
27. State how 'Fixed asset' when discarded and sold are recognized in the Accounts of Electricity companies.
28. Explain contingency reserves in case of electricity companies.
29. Short note on Tariffs and Dividend Control Reserve.
30. What is statutory reserve?

III LONG ANSWER TYPE QUESTIONS:

1. Gupta electricity company earned a profit of Rs.33,97,000 after paying Rs. 1,20,000 @6% as debenture interest for the year ended 31st march, 2014. The following further information is supplied to you:

Fixed asset	7,20,00,000
Depreciation written off	2,00,00,000
Loan from electricity board	1,60,00,000
Reserve fund investment at par(4%)	40,00,000
Contingency reserve investment at par(4%)	30,00,000
Tariff and dividend control reserve	4,00,000
Security deposits of customers	6,00,000
Customer's contribution to assets	2,00,000

Preliminary expenses	1,60,000
Monthly average of current assets including amount due from customers Rs. 10,00,000	30,40,000
Development reserve	10,00,000

- Show the disposal of profits mentioned above taking bank rate as 9%.
- Presuming in qs. 23 Gupta electricity company earns a profit of Rs.60,00,000 after paying debenture interest, pass necessary journal entry for disposal of the company's profit.
 - Explain the purpose of creating reserve for unexpired risk. State its accounting treatment.
 - What are the legal requirements in case of banking companies account.
 - What are the accounting policies for banking sector.
 - Discuss the financial statements of insurance business.
 - Great power ltd. Received rs.2,00,000 as security deposit from its consumers on 1st July 2015. RBI interest rate as on 1st April 2015 was 8%. Pass the journal entries in the books of Great Power Ltd. For the year 31st March 2016.
 - From the following information, prepare the Profit and Loss Account of South Indian Bank as on 31st March, 2004:

	Rs. ('000)
Interest and Discount	3,045
Income from Investments	115
Interest on Balances with RBI	180
Commission, Exchange and Brokerage	820
Profit on Sale of Investments	110
Interest on Deposits	1,225
Interest to RBI	161
Payment to and Provisions for Employees	1,044
Rent, Taxes and Lighting	210
Printing and Stationery	180
Advertisement and Publicity	95
Depreciation	92
Directors' Fees	220
Auditors' Fees	120
Legal Charges	230
Postage, Telegrams and Telephones	70
Insurance	56
Repairs and Maintenance	48

Other information :

- Interest and discount mentioned above is after adjustment for the following :

	Rs. ('000)
(a) Tax provision for the year	220
(b) Provision during the year for doubtful debts	102

9. Write a note on Valuation of Balance sheet in life insurance business.
10. What are the restrictions imposed by the banking regulations Act, 1949 on payment of dividend in case of banking companies?
11. Write a note on classification of investments by a banking company.
12. What are non-performing assets and explain the provisions.
13. Write a note on classification of advances in the case of a banking company.
14. Explain the provisions related to Reserve for Unexpired Insurance.
15. From the following figures taken from the books of New Asia Insurance Company Ltd. doing fire underwriting business.
16. Prepare the set of final accounts for the year 2006-2007:

Profit & Loss A/c (Cr.)	25,000	Expenses on Management	4,31,947
Re-insurance premium	1,12,525	Audit Fees	36,000
Claims recovered from re-insurers	21,119	Rent	67,500
Commission on re-insurance ceded	48,016	Income from Investments	1,53,000
Advance income-tax paid	2,50,000	Sundry Creditors	22,500
		Agent's Balance (Dr.)	20,000
		Cash on Hand and Bank Bal.	1,32,462

The following further information may also be noted:

- (a) Expenses of management include survey fees and legal expenses of Rs. 36,000 and Rs. 20,000 relating to claims;
 - (b) Claims intimated but not paid on 31st March 2006—Rs. 1, 04,000;
 - (c) Income-tax to be provided at 40%;
 - (d) Transfer of Rs. 2, 25,000 to be made from Current Profits to General Reserve.
 - (e) The company maintains a reserve for unexpired risk @ 50% of net premium income.
 - (f) The directors propose a dividend @ 30%. Dividend distribution tax is payable @ 11% which includes surcharge
17. Write a note on the final account of general insurance business required to be prepared as per IRDA Regulations, 2002.
 18. From the following particulars prepare the balance sheet of progressive bank Ltd. As on 31st March 2013.

Particulars	Dr. Rs.	Cr. Rs.
Share capital		10,00,000
Reserve fund		16,00,000
Fixed Deposit		40,00,000
Saving bank Deposits		60,00,000
Current A/c		2,20,00,000
Money at call and short notice in India	2,00,000	

Bills discounted and purchased in India	9,00,000	
Investments at cost		
Central and state govt. securites	100,00,000	
Debentures	4,00,000	
Bullion	24,00,000	
Reserve for buildings		10,00,000
Premises at cost	100,00,000	
Addition to premises	20,00,000	
Depreciation fund on premises		80,00,000
Cash with Reserve Bank of India	34,00,000	
Cash with state bank of India	12,00,000	
Unclaimed Dividend		24,000
Unexpired Discount		50,000
Loans, advances overdraft and cash credit in India	100,00,000	
Branch adjustment	57,94,000	
Silver	2,00,000	
Advance payment of tax	1,10,000	
Interest accrued on investments	2,60,000	
Non Banking assets required	70,000	
Borrowings from bank in India		2,50,000
Bills payable		20,00,000
Profit and Loss A/c including Rs. 2,10,000 for the year		4,10,000
Dividend fluctuation fund		6,00,000
Total	49,34,000	49,34,000

The bank had bills for collection for its constituents Rs. 3,00,000 and acceptances Rs. 4,00,000. There was a claim of Rs. 2,00,000 against the bank but not acknowledged as debt. The liabilities for bills rediscounted was Rs. 32,000. Liability for foreign exchange contract was Rs. 20,00,000. The directors decided to reserve Rs. 2,000 for unexpired discounts and transfers reserve for building to depreciation fund.

19. Write note on reasonable return in electricity supply companies.
20. Distinguish between a performing and non-performing assets.
21. Write a note on Tier I and Tier II Capital

22. The following Trial Balance was extracted from the books of the United Bank of India as on March 31, 2004:

Other Investments in Shares	1,55,630	—
Gold Bullion	15,130	—
Interest Accrued on Investments	24,620	—
Security Deposits of employees	—	15,000
Savings Account Balance	—	7,420
Current Account Ledger Control A/c	—	97,000
Fixed Deposits	—	23,050
Security Premium A/c	—	90,000
Statutory Reserve	—	1,40,000
Silver Bullion	2,000	—
Constituents' Liability for Acceptances and Endorsements	56,500	—
Buildings	65,000	—
Furniture	5,000	—
Borrowings from Banks	—	77,230
Money at Call and Short Notice	26,000	—
Advances	2,00,000	—
Profit and Loss Account balance	—	6,500
Bills Discounted and Purchased	12,500	—
Bills for Collection	—	43,500
Acceptances and Endorsements	—	56,500
Interest	7,950	72,000
Commission and Brokerage	—	25,300
Discounts	—	42,000
Bills Receivable being bills for collection	43,500	—
Audit fees	5,000	—
Loss on sale of Furniture	1,000	—
Directors' Fees	1,200	—
Salaries	21,200	—
Postage	50	—
Rent	—	600
Profit on Bullion	—	1,200
Managing Directors' Remuneration	12,000	—
Miscellaneous Income	—	2,700
Loss on Sale of Investments	30,000	—
Deposit with Reserve Bank of India	75,000	—
Branch Adjustments	20,000	—
Depreciation Reserve on Building	—	20,000
Total	10,20,000	10,20,000

You are required to prepare a Profit and Loss Account for the year ended March, 2004, and Balance Sheet as at that date after considering the following: 31st

- Provide Rebate on bills discounted Rs. 5,000.
- A scrutiny of the Current Account Ledger reveals that there are accounts overdrawn to the extent of Rs. 25,000 and the total of the credit balances is Rs. 1, 22,000.

- (iii) C claims by employees for Bonus Rs. 15,000 is pending award of arbitration,
- (iv) Depreciation on building for the year amounts to Rs. 5,000.
- (v) Out of profits for the year, 20 per cent transferred to Statutory Reserve and the Directors proposed a dividend of 8 per cent, subject to deduction of tax.

23. What do you understand by liquidation of a company? Explain the performa and procedure for preparing liquidators statement at the time of liquidation.

24. While closing the books of a bank on 31st March 2011, you find in the loan ledger an unsecured balance of Rs 5 lakhs in the account of one customer Mr. Z whose financial condition is reported to you as a bad. Interest on the same amounted to Rs. 50,000 during the year but yet to be recovered. During 2011-2012, the bank is able to realize on 80 paise in a rupee on account of customers bankruptcy. Show the necessary journal entries to record the above.

25. From the following information of a commercial bank on 31st March 2012, calculate the amount of NPAs.

1.	STANDARD ASSETS.....	20,60,500
2.	SUB STANDARD ASSETS.....	Rs. 1,10,000
3.	Doubtful asset(secured upto 1 year)..	Rs. 40,000
	1-3years.....	Rs. 25,000
	More than 3 years.....	Rs.10,500
4.	Doubtful assets (unsecured.....	Rs. 22,500
5.	Loss of assets.....	Rs. 15,500

26. The undermentioned balances form part of the Trial Balance of the All People's Assurance Co. Ltd., as on 31st March, 2012

Amount of Life Assurance Fund at the beginning of the year, Rs 14,70,562 thousand; claims by death Rs 76,980 thousand; claims by maturity, Rs 56,420 thousand; premiums, Rs 2,10,572 thousand; expenses or management, Rs 19,890 thousand; commission, Rs 26,541 thousand; consideration for annuities granted Rs 10,712 thousand; interests, dividends and rents, Rs 52,461 thousand; income tax paid on profits Rs 3,060 thousand; surrenders, Rs 21,860 thousand; annuities, Rs 29,420 thousand; bonus paid in cash, Rs 9,450 thousand; bonus paid in reduction of premiums, Rs 2,500 thousand; preliminary expenses balance, Rs 600 thousand; claims admitted but not paid at the end of year, Rs 10,034 thousand; annuities due but not paid, Rs 2,380 thousand; capital paid up, Rs 14,00,000 thousand; Government securities, Rs 24,90,890 thousand; Sundry Fixed Assets, Rs 4,19,110 thousand.

Prepare Revenue Account and the Balance Sheet after taking into account the following:

- (a) Claims covered under reinsurance, ₹ 10,000 thousand
 (b) Further claims intimated. ₹ 8,000 thousand } by death;
 (c) Further bonus utilised in reduction of premium, ₹ 1,500 thousand
 (d) Interest Accrued, ₹ 15,400 thousand;
 (e) Premiums Outstanding, ₹ 7,400 thousand.

27. Indian Insurance Co. Ltd. furnishes you with the following information:

- (i) On 31.3.2011 it had reserve for unexpired risks to the tune of Rs 40 crore. It comprised of Rs 15 crore in respect of marine insurance business; Rs 20 crore in respect of fire insurance business and Rs 5 crore in respect of miscellaneous insurance business.
 (ii) It is the practice of Indian Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous insurance policies.
 (iii) During the year ended 31st March, 2012, the following business was conducted:

	<i>Marine</i> ₹ crores	<i>Fire</i> ₹ crores	<i>Miscellaneous</i> ₹ crores
Premia collected from :			
(a) Insured (other than insurance companies) in respect of policies issued	18	43	12
(b) Other insurance companies in respect of risks undertaken	7	5	4
Premia paid/payable to other insurance companies on business ceded	6.7	4.3	7

Indian Insurance Co. Ltd. asks you to:

- (a) Pass journal entries relating to “unexpired risks reserve”.
 (b) Show in columnar form Unexpired Risks Reserve Account for the year ended 31st March, 2012.

QUESTION BANK

INDIAN ECONOMY

B.COM 208

UNIT - I

I MULTIPLE CHOICE QUESTIONS:

1. The best indicator of economic development of any country is:
- A. Agriculture
 - B. Transport
 - C. Gross Production
 - D. Per Capita Income

ANSWER:D

2. Which of the following explains economic growth?
- A. Increase in per capita production
 - B. Increase in per capita real income
 - C. structural change in the economy
 - D. All the above are right

ANSWER: D

3. Economic development is characterized by
- A. Structural change in the economy
 - B. Change in the occupational structure
 - C. Both a and b
 - D. None of the above

ANSWER: C

4. An underdeveloped economy is characterized by
- A. High per capita real income
 - B. Large proportion of labor force in the tertiary sector
 - C. State of deprivation of large proportion of population
 - D. All of the above

ANSWER: C

5. Scarcity of capital, technological backwardness and unemployment are generally found in:
- A. Developed countries
 - B. None of the above
 - C. Underdeveloped countries
 - D. Both

ANSWER: C

6. Which of the following denotes an underdeveloped economy?
- A. High level of inequality
 - B. Low level of capital productivity
 - C. A relatively closed economy
 - D. All the above

ANSWER: D

7. Which of the following estimates National Income in India?

- A. Central Statistical Organisation
- B. National Income Committee
- C. Planning Commission
- D. Reserve bank of India

ANSWER: A

8. Economic Planning is an essential feature of:

- A. Capitalist economy
- B. Socialist Economy
- C. Mixed Economy
- D. Dual Economy

ANSWER: B

9. National Income is the:

- A. Net National Product at market price
- B. Net National Product at factor cost
- C. Net Domestic Product at market price
- D. Net Domestic Product at factor cost

ANSWER: C

10. Development means economic growth with:

- A. Price Stability
- B. Social Change
- C. Inflation
- D. Deflation

ANSWER: B

11. To get the Net National Product, we deduct what from the Gross National Product:

- A. Direct Taxes
- B. Imports
- C. Interim payments
- D. Loss

ANSWER: D

12. What is Gross National Product:

- A. The total output of goods and services produced by the country's economy
- B. The total domestic and foreign output claimed by residents of the country
- C. The sum of gross domestic product and investment
- D. National Income minus National Expenditure

ANSWER: B

13. National Income ignores:

- A. Sales of a firm
- B. Salary of Employees

- C. Exports of the IT Sector
- D. Sale of land

ANSWER: D

14. The most simple and popular method of measuring economic development is to calculate the trend of Gross National Product (GNP) at:

- A. Current Prices
- B. Constant Prices
- C. Both of the above
- D. None of the above

ANSWER: B

15. Which among the following is a characteristic of underdevelopment?

- A. Vicious Circle of poverty
- B. Rising mass
- C. Growth of industries
- D. High rate of Urbanization

ANSWER: A

16. When National Income is calculated with reference to a base year, it is called:

- A. Nominal National Income
- B. Net National Income
- C. Real National Income
- D. Gross National Income

ANSWER: C

17. Rate of growth of an economy is measured in term of:

- A. National Income
- B. Per Capita Income
- C. Number of people who have been lifted above the poverty line
- D. Industrial Development

ANSWER: A

18. Nominal GDP is: -

- A. The total value of goods and services net of exports
- B. The total value of goods and services produced during periods of low unemployment
- C. The total value of goods and services measured at current prices
- D. The total value of goods and services produced at full employment.

ANSWER: C

19. National income is

- A. NDP at market prices
- B. NDP at factor cost
- C. GNP at market prices.
- D. None

ANSWER: C

20. National income is the Of all the goods and services produced by a country during a period of year

- A. Physical quantity
- B. Money value
- C. Value
- D. All the three

ANSWER: B

21. GDP is the money value of final goods and serviced produced in the..... of a country during an accounting year

- A. Domestic territory
- B. Political territory
- C. Specific area
- D. FTZ area

ANSWER: A

22. In agricultural sector net value added is estimated by

- A. Income method
- B. Expenditure method
- C. Production method
- D. All the three

ANSWER: C

23. Which of these are not included in territory sector?

- A. Banking
- B. Insurance
- C. Agriculture
- D. Transport

ANSWER: C

24. Which of these is primary sector?

- A. Communication
- B. Banking
- C. Construction
- D. Poultry farming

ANSWER: D

25. Which of these is a secondary sector?

- A. Manufacturing sector
- B. Transport
- C. Forestry
- D. Animal husbandry

ANSWER: A

26. Which of the following Price Indices of India is considered for measuring 'Headline Inflation'?

- A. GDP Deflator
- B. CPI-AL/RL
- C. CPI-IW
- D. WPI

ANSWER: D

27. Consider the following Statements: Indicative Planning is a feature of 'Mixed Economy'. Perspective Planning is used by socialist countries where each and every aspect of planning is controlled by the State. Which of the above Statement(s) is/are correct?

- A. Only 1
- B. Only 2
- C. Both 1 and 2
- D. Neither 1 nor 2

ANSWER: A

28. Devaluation of currency can correct a Balance of Payments deficit because:

- A. It lowers price of exports in foreign currency and rises price of imports in home currency
- B. It raises price of exports in foreign currency and lowers price of imports in home currency
- C. It raises price of exports and imports in foreign currency
- D. It lowers price of exports and imports in home currency

ANSWER: A

29. What is the share of Government of India in NABARD?

- A. 50%
- B. 51%
- C. 75%
- D. 99%

ANSWER: D

30. Which among the following data are released in India on monthly basis?

- 1. CPI
- 2. WPI
- 3. IIP

Choose the correct option:

- A. Only 1 & 3
- B. Only 2 & 3
- C. Only 1
- D. 1,2 & 3

ANSWER: D

31. What option does the central government does not include in development expenditure?

- A. Grant to States
- B. Expenditure on social and community services
- C. Expenditure on economic services
- D. Defense Expenditure

ANSWER: D

32. Depreciation is defined as:

- A. Destruction of plant in fire accident
- B. Loss of equipment over time due to wear and tear
- C. Closure of plant due to labour trouble
- D. Closure of plant due to lockout

ANSWER: B

33. In general, deficit financing can create inflation, but it can be checked if.

- A. Government expenditure increases the aggregate supply in the aggregate demand ratio
- B. All the investment is indicated as payment on national debt only
- C. Only aggregate demand is increased
- D. All of the above

ANSWER: D

34. On July 12, 1982, The ARDC collaborated with

- A. NABARD
- B. EXIM Bank
- C. RBI
- D. None of the above

ANSWER: A

35. What is the main cause of exports surplus?

- A. Country's stringent import policy
- B. Developments in national and international markets
- C. Country's exports promotion value
- D. None of the above

ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

1. Explain the statement "Economic Growth is different from economic development."
2. Distinguish between economic growth and economic development.
3. Outline the basic characteristics of Indian Economy.
4. What is the difference between favourable and unfavorable occupational structure?
5. Explain briefly occupational structure of India.
6. What is Parallel Economy?
7. Briefly discuss the reasons for unsatisfactory progress in occupational structure of India even after five decades of planned economic development.

8. Explain FEMA (Foreign Exchange Management Act).
9. Elaborate TRIMS.
10. What is unemployment?
11. What are different types of unemployment?
12. Explain the concept of Below Poverty Line.
13. Which among the following is a developed country and why: USA, India and Pakistan?
14. Give the meaning of National Income.
15. What are the common features of an underdeveloped country?
16. What are different trends of national Income in India?
17. Explain the significance of secondary sector in economy of India.
18. What are the changes in occupational structure of Indian economy?
19. Briefly discuss the changes in sectoral shares in GDP of India.
20. Are economic growth and economic development independent of each other?
21. Give the significance of agriculture sector in an economy.
22. What are the Characteristics of an economy like India?
23. Explain the relationship of primary sector and GDP.
24. What do you mean by economic development?
25. Examine the role of primary sector in Indian economy.
26. What are different types of foreign capital?
27. What is Human Development Index?
28. What are the different indicators of economic development?
29. Give contributions of different sectors in Indian Economy.
30. List down the characteristics of Developed Economy.

III LONG ANSWER TYPE QUESTIONS:

1. What is the difference between favourable and unfavorable occupational structure? Briefly discuss the reasons for unsatisfactory progress in occupational structure of India even after five decades of planned economic development.
2. Distinguish between economic growth and economic development. Has India developed? Give reasons for your answer.
3. Discuss the characteristics of Indian Economy. What changes have taken in the structure of Indian Economy leading to the growth of GDP of our country, India? Discuss them.
4. Examine the major changes that have taken place in the occupational structure of India in the post-Independence era.
5. Explain the relationship between economic development and occupational structure of a country.
6. Analyze the major factors that influence the development of an economy. How far the Indian Economy has succeeded in meeting the developmental challenges?
7. Discuss the changes in sectoral shares in GDP and sectoral contribution to employment in post-independence era.
8. What are different types of Occupational Structure? What is the relationship between occupational structure and economic development?
9. Explain the features of an underdeveloped economy. How far are these features present in Indian economy?

10. Distinguish between economic development and economic growth. Is an increase in real per capita income a good measure of economic development?
11. Discuss the major features of Indian Economy in present times.
12. Examine the occupational structure in Indian economy.
13. Compare the role of primary and secondary sector in Indian economy.
14. Explain the trends in National Income of Post Reform India.
15. Explain the trends in National Income of Post Reform India.
16. "Self-Reliance in an objective of Indian economy." Explain.
17. What is economic development? What are different determinants of economic development?
18. Explain the relationship between Tertiary Sector and GDP.
19. Distinguish between Disguised and Structural Unemployment with the help of suitable examples.
20. Discuss the salient features of Indian economy. What is the importance of agriculture in one economy?
21. Explain the changes in the structure of Primary, Secondary and Tertiary Sectors of Indian Economy. How these changes have been helpful in strengthening the Indian economy? Give examples to support your Answers.
22. Explain the concept of work force participation in context of India.
23. What are the basic characteristics of Indian economy? Also elaborate the changes in structure of India.
24. How different sectors of an economy contribute in GDP?
25. Elaborate changes in the occupational structure in India and its benefits.
26. What is National Income? What are trends in National Income in India.
27. What is Balanced Regional Development? Illustrate.
28. What are different types of sectors in Indian Economy. Explain Changes in occupational structure in India & its benefits.
29. What is the difference between Economic Growth and Development? What is Balanced regional development. Explain with example.
30. Discuss the changes in sectoral shares in GDP. Also explain in context of India, how far it has grown in sectoral shares contribution.

UNIT - II

I MULTIPLE CHOICE QUESTIONS:

1. The best indicator of economic development of any country is:
 - A. Agriculture
 - B. Transport
 - C. Gross Production
 - D. Per Capita Income

ANSWER: D

2. What does Census provide us?
- A. Information regarding population
 - B. Information regarding resources
 - C. Information regarding agricultural income
 - D. Information regarding crops

ANSWER: A

3. Which of the following statements defines the density of population?
- A. Number of persons living per unit area
 - B. Number of persons living in a country
 - C. Change in the number of inhabitants of a country during a specific period of time
 - D. Absolute numbers added every year

ANSWER: A

4. Full employment is the level at which there is
- A. Zero unemployment
 - B. Normal rate of unemployment
 - C. Less supply of labor
 - D. Demand for goods is less than supply

ANSWER: C

5. Natural rate of unemployment increases due to
- A. General downturn in business activity
 - B. Changes in labor market
 - C. Structural changes in economy
 - D. Frequent changes of jobs by labor

ANSWER: D

6. If the actual rate of unemployment exceeds to natural rate of unemployment, then:
- A. Actual output of the economy will fall below its potential
 - B. Production will increase more than potential
 - C. Consumption of goods decreases
 - D. Both (a) and (c) above

ANSWER: D

7. How much of rural population in India are in a population to avail safe drinking water and basic sanitation amenities?
- A. 66.7%
 - B. 50%
 - C. 15%
 - D. 33.3%

ANSWER: D

8. Disguised unemployment means:
A. Unemployment in agriculture
B. Unemployment due to recession
C. Unemployment due to downturn in business activity
D. Marginal Productivity of Labor (MPL) is zero
ANSWER: C
9. In which sector of Indian economy will we find a high rate of disguised unemployment?
A. Service sector
B. Agriculture sector
C. Manufacture sector
D. Mining sector
ANSWER: B
10. Unemployment that is caused by a mismatch between the composition of the labor force (in terms of skills, occupation, industries, or geographic location) and the make-up of the demand for labor is called:
A. Real wage unemployment
B. Deficient-demand unemployment
C. Frictional unemployment
D. Structural Unemployment
ANSWER: D
11. During the recessionary phase of a business cycle:
A. The natural rate of unemployment will increase dramatically
B. Potential national income will exceed actual national income
C. Actual national income will exceed potential national income
D. The real rate of interest will exceed the nominal rate of interest
ANSWER: A
12. Every _____ poor person in World is an Indian:
A. Second
B. Third
C. Tenth
D. Fourth
ANSWER: B
13. India is passing through the phase of population:
A. Explosion
B. Control
C. Stability
D. None of the above
ANSWER: A

14. If an economy is under developed, it means:
- A. Agriculture is the main occupation
 - B. Standard of living of people is low
 - C. Production Techniques are backward and obsolete
 - D. All of the above

ANSWER:D

15. Inequality of Income is measured by:
- A. Human development index
 - B. Gini Coefficient
 - C. Per Capita Income
 - D. Physical Quality of Life Index

ANSWER: B

16. When and by whom was HDI introduced?
- A. In 1990 by UNDP
 - B. In 1989 by World Bank
 - C. In 1990 by UNO
 - D. In 1989 by IMF

ANSWER: A

17. Indicator of HDI is:
- A. Longevity
 - B. Educational Attainment
 - C. Standard of Living
 - D. All of the above

ANSWER: D

18. What makes India a developing economy?
- A. Rise in National Income
 - B. Rise in Per Capita Income
 - C. Growing Capital Income
 - D. All of the above

ANSWER: A

19. What makes India an underdeveloped economy?
- A. Low Human Development
 - B. High Poverty level
 - C. Dominant Agriculture sector
 - D. All of the above

ANSWER: D

20. The concept of Economic Planning in India is derived from?
A. USA
B. UK
C. Australia
D. Russia
ANSWER: D
21. First five-year plan in India was from
A. 1947 - 1952
B. 1949 - 1954
C. 1950 - 1955
D. 1951 - 1956
ANSWER: D
22. Which five-year plan focused on “Growth with social justice and equity”.
A. Ninth Five Year Plan
B. Eight Five Year Plan
C. Seventh Five Year Plan
D. Sixth Five Year Plan
ANSWER: A
23. Planning Commission was constituted on?
A. 15th March, 1948
B. 15th March, 1949
C. 15th March, 1950
D. 15th March, 1951
ANSWER: C
24. Who fixes the poverty line?
A. Government
B. Lok Sabha
C. Rajya Sabha
D. Planning Commission
ANSWER: D
25. Who is known as father of economics?
A. Adam Smith
B. Max Muller
C. Joy Chatterjee
D. Amritya Sen
ANSWER: A
26. Economic growth is normally coupled with?
A. Inflation
B. Hyper Inflation
C. Deflation

D. Stagflation
ANSWER: A

27. During the recessionary phase of a business cycle:
- A. The natural rate of unemployment will increase dramatically
 - B. Potential national income will exceed actual national income
 - C. Actual national income will exceed potential national income
 - D. The real rate of interest will exceed the nominal rate of interest
- ANSWER: B

28. Every _____ poor person in World is an Indian:
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 - D. None of the above
- ANSWER: A

30. If an economy is under developed, it means:
- A. Agriculture is the main occupation
 - B. Standard of living of people is low
 - C. Production Techniques are backward and obsolete
 - D. All of the above
- ANSWER: B

31. Who is the father of economics?
- A. Max Mueller
 - B. Adam Smith
 - C. Karl Marx
 - D. None of the above
- ANSWER: B

32. On July 12, 1982, The ARDC collaborated with
- A. NABARD
 - B. EXIM Bank
 - C. RBI
 - D. None of the above
- ANSWER: A

33. What is the main cause of exports surplus?
 A. Country's stringent import policy
 B. Developments in national and international markets
 C. Country's exports promotion value
 D. None of the above
 ANSWER: B
34. In which of the first five-year plans the actual growth performance in India in respect of GDP was less than the target set?
 A. 6th
 B. 5th
 C. 8th
 D. 9th
 ANSWER: D
35. The second five-year plan laid more stress upon:
 A. Industrialization
 B. Reducing Poverty
 C. Self-Reliance
 D. Agriculture
 ANSWER: A

II SHORT ANSWER TYPE QUESTIONS:

1. Explain the validity of the statement, "Planning has failed in India."
2. What are the salient features of New Industrial Policy, 1991?
3. Explain the demographics of Indian Population.
4. What is meant by Globalization?
5. Describe the main features of poverty problem of India.
6. What progress has been achieved in the field of regional balanced development of Indian Economy?
7. Explain the nature of Unemployment in India.
8. What are the measures to reduce poverty in India?
9. Examine the primary objectives of economic planning in India. How far have these been achieved?
10. Discuss the nature, magnitude and causes of unemployment problem in India.
11. What measures will you suggest generating employment opportunities in rural areas?
12. Explain the implications of Globalization.
13. What are the objectives of Industrial Policy 1991?
14. Critically evaluate the impact and achievements of India's economic reform process initiated in 1991.
15. What is the significance of Five Year Plans?
16. What is the rationale for Liberalization?
17. What are the objectives of economic planning?
18. What are the significant changes that took place in Industrial Policy?
19. Explain Industrial sickness.

20. What are the causes of industrial sickness?
21. Explain the key areas of tenth five-year plan.
22. What are the remedies to improve industrial sickness?
23. In which economic plan the poverty was key focus area?
24. What were the impacts of Industrial Policy, 1991 on Indian economy?
25. How the problem of poverty is related to the problem of unemployment.
26. What is absolute poverty?
27. What do you mean by disinvestment?
28. What is Relative Poverty?
29. Compare Unemployment problems faced by urban and rural India.
30. Explain the concept of Privatization.

III LONG ANSWER TYPE QUESTIONS:

1. Explain disinvestment of public enterprises. Explain its consequences in context of Indian firms.
2. What is Industrial Sickness? What are the causes and remedies of Industrial Sickness?
3. Explain the concept of Five-year Plans. What are the characteristics of Tenth Five-year plan?
4. Discuss briefly the nature and causes of rural unemployment in India.
5. What is Unemployment? What remedies would you suggest for solving the problem of unemployment?
6. Discuss the main features of New Industrial Policy 1991. How far the objectives of this policy have been achieved?
7. Examine the nature of Industrial Sickness in India. Do you think disinvestment of public sector units is the only solution?
8. What are the objectives of economic planning in India? Critically examine the statement – “Economic Planning in India has failed.”
9. State the dimensions of New Industrial Policy (1991). Analyze its impact on industrial growth and development in Indian economy.
10. Explain 11th Five-year plan of India.
11. Discuss unemployment problem in Rural India.
12. Discuss the concept of ‘Inclusive Growth’ in the light of 12th five-year plan.
13. Suggest remedies for Industrial Sickness in Indian context.
14. Briefly discuss Below Poverty Line (BPL) Family.
15. Explain Star Trading House.
16. Discuss the concept of ‘Inclusive Growth’ in the light of 12th Five Year Plan.
17. Suggest remedies for Industrial Sickness in Indian Context.
18. Critically evaluate the achievements of the 11th Five Year Plan.
19. What are the different types of planning? Explain the merits of functional planning.
20. Compare Absolute and Relative Poverty.
21. Critically evaluate the achievements of various five-year Plans implemented by government of India.
22. What is economic planning? What are its objectives? Explain the current five-year plan targets and focus areas for economic development of the country.

23. Give the objectives of Industrial Policy, 1991. To what extent Industrial Policy of 1991 has helped in bringing Industrialization in the country?
24. Give highlights of Industrial Policy of 1991 and how they are different from previous policies.
25. What is Unemployment? What are different types of unemployment prevailing in Indian economy?
26. What are different types of problems faced by Indian economy?
27. Critically evaluate the achievements of various five-year Plans implemented by government of India.
28. Explain in detail the twelfth five-year plan.
29. What is economic planning? What are its objectives and how much is been achieved?
30. Explain the current five-year plan targets & focus areas for economic development of the country.

UNIT - III

I MULTIPLE CHOICE QUESTIONS:

1. The best indicator of economic development of any country is:
 - A. Agriculture
 - B. Transport
 - C. Gross Production
 - D. Per Capita Income
 ANSWER: D

2. A country's Current Account:
 - A. Balance equals the change in its net foreign wealth.
 - B. Balance equals the change in its foreign wealth.
 - C. Surplus equals the change in its foreign wealth.
 - D. Deficit equals the change in its foreign wealth.
 ANSWER: A

3. The Exchange-rate System that best characterizes the present international monetary arrangement used by industrialized countries is:
 - A. Freely Fluctuating Exchange Rates
 - B. Adjustable Pegged Exchange Rates
 - C. Managed Floating Exchange Rates
 - D. Pegged or Fixed Exchange Rates
 ANSWER: D

4. Which exchange-rate mechanism is intended to insulate the balance of payments from short-term capital movements while providing exchange rate stability for commercial transactions?
 - A. Dual Exchange Rates
 - B. Managed Floating Exchange Rates

- C. Adjustable Pegged Exchange Rates
- D. Crawling Pegged Exchange Rates

ANSWER: A

5. Which exchange-rate mechanism calls for frequent redefining of the par value by small amounts to remove a payments disequilibrium?
- A. Dual Exchange rates
 - B. Adjustable Pegged Exchange Rates
 - C. Managed Floating Exchange Rates
 - D. Crawling Pegged Exchange Rates

ANSWER: D

6. Under managed floating exchange rates, if the rate of inflation in the United States is less than the rate of inflation of its trading partners, the dollar will likely:
- A. Appreciate against foreign currencies
 - B. Depreciate against foreign currencies
 - C. Be officially revalued by the government
 - D. Be officially devalued by the government

ANSWER: A

7. Under adjustable pegged exchange rates, if the rate of inflation in the United States exceeds the rate of inflation of its trading partners:
- A. U.S. exports tend to rise, and imports tend to fall
 - B. U.S. imports tend to rise, and exports tend to fall
 - C. U.S. foreign exchange reserves tend to rise
 - D. U.S. foreign exchange reserves remain constant

ANSWER: B

8. Under a pegged exchange-rate system, which does not explain why a country would have a balance-of payments deficit?
- A. Very high rates of inflation occur domestically
 - B. Foreigners discriminate against domestic products
 - C. Technological advance is superior abroad
 - D. The domestic currency is undervalued relative to other currencies

ANSWER: D

9. Which exchange-rate system does not require monetary reserves for official exchange-rate intervention?
- A. Floating exchange rates
 - B. Pegged exchange rates
 - C. Managed floating exchange rates
 - D. Dual exchange rates

ANSWER: A

10. A primary objective of dual exchange rates is to allow a country the ability to insulate its balance of payments from net:
- A. Current account trade transactions
 - B. Unilateral trade transactions
 - C. Merchandise trade transactions
 - D. Capital account trade transactions
- ANSWER: D
11. Under the historic adjustable pegged exchange-rate system, member countries were permitted to correct persistent and sizable payment deficits (i.e., fundamental disequilibrium) by:
- A. Officially revaluing their currencies
 - B. Officially devaluing their currencies
 - C. Allowing their currencies to depreciate in the free market
 - D. Allowing their currencies to appreciate in the free market
- ANSWER: B
12. Which exchange-rate system involves a “leaning against the wind” strategy in which short-term fluctuations in exchange rates are reduced without adhering to any particular exchange rate over the long run?
- A. Pegged or fixed exchange rates
 - B. Adjustable pegged exchange rates
 - C. Managed floating exchange rates
 - D. Freely floating exchange rates
- ANSWER: A
13. In 1973, the reform of the international monetary system resulted in the change from:
- A. Adjustable pegged rates to managed floating rates
 - B. Managed floating rates to adjustable pegged rates
 - C. Crawling pegged rates to freely floating rates
 - D. Freely floating rates to crawling pegged rates
- ANSWER: D
14. The Bretton Woods Agreement of 1944 established a monetary system based on
- A. Gold and managed floating exchange rates
 - B. Gold and adjustable pegged exchange rates
 - C. Special Drawing Rights and managed floating exchange rates
 - D. Special Drawing Rights and adjustable pegged exchange rates
- ANSWER: B
15. Rather than constructing their own currency baskets, many nations peg the value of their currencies to a currency basket defined by the International Monetary Fund. Which of the following illustrates this basket?
- A. IMF tranche
 - B. Special Drawing Rights
 - C. Primary reserve asset

D. Swap facility
ANSWER: B

16. Small nations (e.g., the Ivory Coast) whose trade and financial relationships are mainly with a single partner tend to utilize:
- A. Pegged exchange rates
 - B. Freely floating exchange rates
 - C. Managed floating exchange rates
 - D. Crawling pegged exchange rates
- ANSWER: A

17. Small nations (e.g., Tanzania) with more than one major trading partner tend to peg the value of their currencies to:
- A. Gold
 - B. Silver
 - C. A single currency
 - D. A basket of currencies
- ANSWER: D

18. Under a floating exchange-rate system, if American exports increase and American imports fall, the value of the dollar will:
- A. Appreciate
 - B. Depreciate
 - C. Be officially revalued
 - D. Be officially devalued
- ANSWER: A

19. Under a floating exchange-rate system, if American exports decrease and American imports rise, the value of the dollar will:
- A. Appreciate
 - B. Depreciate
 - C. Be officially revalued
 - D. Be officially devalued
- ANSWER: B

20. Under a floating exchange rate system, an increase in U.S. imports of Japanese goods will cause the demand schedule for Japanese yen to:
- A. Increase, inducing a depreciation in the yen
 - B. Decrease, inducing a depreciation in the yen
 - C. Increase, inducing an appreciation in the yen
 - D. Decrease, inducing an appreciation in the yen
- ANSWER: C

21. Given an initial equilibrium in the money market and foreign exchange market, suppose the Federal Reserve increases the money supply of the United States. Under a floating exchange-rate system, the dollar would:
- A. Appreciate in value relative to other currencies
 - B. Depreciate in value relative to other currencies
 - C. Be officially devalued by the government
 - D. Be officially revalued by the government
- ANSWER: B
22. Under a floating exchange-rate system, if the U.S. dollar depreciates against the Swiss franc:
- A. American exports to Switzerland will be cheaper in francs
 - B. American exports to Switzerland will be more expensive in francs
 - C. American imports from Switzerland will be cheaper in dollars
 - D. None of the above
- ANSWER: A
23. If the Japanese yen depreciates against other currencies in the exchange markets, this will:
- A. Have no effect on the Japanese balance of trade
 - B. Tend to worsen the Japanese balance of trade
 - C. Tend to improve the Japanese balance of trade
 - D. None of the above
- ANSWER: A
24. A market-determined increase in the dollar price of the pound is associated with:
- A. Revaluation of the dollar
 - B. Devaluation of the dollar
 - C. Appreciation of the dollar
 - D. Depreciation of the dollar
- ANSWER: D
25. A market-determined decrease in the dollar price of the pound is associated with:
- A. Revaluation of the dollar
 - B. Devaluation of the dollar
 - C. Appreciation of the dollar
 - D. Depreciation of the dollar
- ANSWER: C
26. Which exchange-rate system does not require monetary reserves for official exchange-rate intervention?
- A. Floating exchange rates
 - B. Pegged exchange rates
 - C. Managed floating exchange rates
 - D. Dual exchange rates
- ANSWER: A

27. A primary objective of dual exchange rates is to allow a country the ability to insulate its balance of payments from net:
- A. Current account transactions
 - B. Unilateral transfers
 - C. Merchandise trade transactions
 - D. Capital account transactions
- ANSWER: D
28. During the 1970s, the European Union, in its quest for monetary union, adopted what came to be referred to as the “Community Snake” This device was a (an):
- A. Adjustable pegged exchange rate system
 - B. Dual exchange rate system
 - C. Jointly floating exchange rate system
 - D. Freely floating exchange rate system
- ANSWER: C
29. Under the historic adjustable pegged exchange-rate system, member countries were permitted to correct persistent and sizable payment deficits (i.e., fundamental disequilibrium) by:
- A. Officially revaluing their currencies
 - B. Officially devaluing their currencies
 - C. Allowing their currencies to depreciate in the free market
 - D. Allowing their currencies to appreciate in the free market
- ANSWER: B
30. Which exchange-rate system involves a “leaning against the wind” strategy in which short-term fluctuations in exchange rates are reduced without adhering to any particular exchange rate over the long run?
- A. Pegged or fixed exchange rates
 - B. Adjustable pegged exchange rates
 - C. Managed floating exchange rates
 - D. Freely floating exchange rates
- ANSWER: C
31. Which of the following organizations looks after the credit needs of agriculture and rural development in India?
- A. FCI
 - B. IDBI
 - C. NABARD
 - D. ICAR
- ANSWER: C
32. In India which of the following taxes is levied by the state governments?
- A. Excise duty on liquor
 - B. Capital gains tax
 - C. Customs tax

D. Corporation tax

ANSWER: A

33. Economic survey is published by:

A. Ministry of Finance

B. Planning Commission

C. Government of India

D. Indian Statistical Institute

ANSWER: A

34. The Deputy Chairperson of the Planning Commission is: -

A. HRD Minister

B. Finance Minister

C. Holds the rank of a Cabinet Minister

D. Is an economist of repute

ANSWER: C

35. Who is the chairperson of planning commission in India?

A. President

B. Vice-President

C. Prime Minister

D. Finance Minister

ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

1. Discuss the statement, "Devaluation of the currency improves Balance of Payments position of an economy."
2. Distinguish between balance of trade and balance of payment.
3. Explain Small scale Industries.
4. Explain Micro scale Industries.
5. What is the importance of foreign exchange reserve?
6. What is depreciation of exchange rate?
7. Explain the problems faced by Sugar Industry.
8. Explain the problems faced by Petroleum Industry.
9. Define Exchange rate.
10. Differentiate between devaluation and depreciation of currency.
11. What is BOP?
12. What is BOT?
13. Give the meaning of Current account.
14. Explain Capital Account.
15. What are different components of BOP?
16. What are the causes of adverse BOP?
17. Give various components of BOT?
18. What are the remedies to improve adverse BOP?
19. Discuss current foreign trade policy of India.

20. What are the implications of foreign trade policy on an economy?
21. Examine Export- Import Policy 2007.
22. Compare the characteristics of FERA and FEMA.
23. Distinguish between appreciation and revaluation of currency.
24. Explain briefly import substitution.
25. What are different import substitution policies.
26. How exchange rate fluctuations impact Balance of Payment.
27. What are recent changes in FDI in retail sector in India.
28. Which one is better FDI or FII?
29. Why FII is known as hot money?
30. Does exchange rate shows the development picture of an economy?

III LONG ANSWER TYPE QUESTIONS:

1. Discuss the salient features of India's Balance of Payment situation.
2. What is the role of export promotion and import substitution after globalization of Indian economy?
3. Discuss the main features of Export Import Policy (2002-2007)
4. What do you understand by Balance of Payment? How is it different from Balance of Trade?
5. What are the components of Balance of Payment account of our country?
6. What are the various reforms taken by Modi Government in last few years?
7. What are some incentives given by our government as a part of Export Promotion?
8. Write a note on India's Balance of Payment (BOP) position since 1991.
9. What is the role of export promotion and import substitution since liberalization of Indian economy?
10. What does a deficit on current account of balance of payment indicate?
11. How policy changes have contributed to the improvement in our current account balance?
12. Explain the causes and remedial measures for adverse balance of payments in India.
13. Explain the share of FDI in defense sector in India.
14. Explain the foreign exchange reserves position in India since 1991. What is the role of export promotion and import substitution since liberalization of Indian Economy?
15. Give the rationale for exports in Indian economy.
16. Critically examine the latest foreign trade policy of India.
17. Examine the Balance of Payments Scenario in present times.
18. Explain the challenges faced by Small Scale Industry and how they can be overcome.
19. Explain the challenges faced by Iron and Steel Industry.
20. Explain the challenges faced by Cotton and Textile Industry.
21. What is the Balance of Payment? Discuss the impact of fluctuation in exchange rates on the balance of payment.
22. Explain the difference between import-substitution and export promotion policies.
23. Distinguish between depreciation and appreciation of exchange rate.
24. What incentives are given to exporters as a part of foreign trade policy of GOI? Explain these incentives in brief.
25. Write a detailed note on the Balance of Payment account of Indian economy. What are the various constituents of BOP account of a country?

26. Explain the difference between BOP and BOT. What are different types of accounts in BOP and BOT.
27. Contrast features of Current Account and Capital Account.
28. Explain Regional Imbalance in India in detail.
29. What incentives are given to exporters as a part of Foreign Trade Policy of GOI? Explain these incentives in brief.
30. Explain the difference between Import Substitution and Export Promotion Policy.

UNIT – IV

I MULTIPLE CHOICE QUESTIONS:

1. Who gives the final approval to the five-year plans of India?
 - A. National Development Council (NDC)
 - B. Ministry of Finance
 - C. Planning Commission (now NITI Aayog)
 - D. President of IndiaANSWER: A

2. When was the first five-year plan of India started?
 - A. 1949
 - B. 1950
 - C. 1952
 - D. 1951ANSWER: D

3. The very first five-year plan of India was based on the model of:
 - A. Mahalanobis model
 - B. Harrod Domar Model
 - C. Bombay Plan
 - D. None of theseANSWER: B

4. What as the prime target of the first five-year plan of India?
 - A. Development of the industries
 - B. Development of Agriculture
 - C. Development of infrastructure
 - D. Development of portsANSWER: B

5. Which programme given the slogan of Garibi Hatao?
 - A. 4th five-year plan
 - B. 3rd five-year plan
 - C. 6th five-year plan
 - D. 5th five-year planANSWER: D

6. In which five-year plan India opted for mixed economy?

- A. First
- B. Second
- C. Third
- D. Fourth

ANSWER: B

7. When was plan holiday declared?

- A. After the third plan
- B. After the fourth plan
- C. After the fifth plan
- D. After the sixth plan

ANSWER: A

8. Jawahar Rojgar Yojna was launched in:

- A. 5th five-year plan
- B. 6th five-year plan
- C. 8th five-year plan
- D. 7th five-year plan

ANSWER: D

9. Three annual plans were launched between:

- A. 1969 to 1972
- B. 1966 to 1969
- C. 1986 to 1989
- D. 1988 to 1991

ANSWER: B

10. National Development Council consists of:

- A. Members of planning commission
- B. Governors of the states
- C. Chief Ministers of the states
- D. A & C

ANSWER: D

11. What are countervailing measures?

- A. Measures which a State may initiate against another State when that other State has legally subsidized any of its domestic industries
- B. Measures which a national government may initiate against another State when that other State has not subsidized any of its domestic industries
- C. Measures which a State may initiate against another State when that other State has illegally subsidized any of its domestic industries

D. Measures which a national government may initiate against another State when that other State has not illegally subsidized any its domestic industries

ANSWER: C

12. What was the main aim of the Eighth Five Year Plan?

- A. Poverty Alleviation
- B. Agriculture
- C. Growth with Justice
- D. Basic Industry

ANSWER: A

13. The main aim of 10th plan:

- A. Eradication of Regional Imabalnces
- B. Basic Industry
- C. Eradication of Poverty
- D. Food and Work

ANSWER: A

14. Which type of Planning is adopted in India from 8th Plan onwards?

- A. Imperative Planning
- B. Inductive Planning
- C. Perspective Planning
- D. Rolling Planning

ANSWER: B

15. The period of 12th Five Year Plan is:

- A. 2005-10
- B. 2012-17
- C. 2004-11
- D. 2007-12

ANSWER: D

16. The target growth rate during the 11th plan:

- A. 8.5%
- B. 7%
- C. 9%
- D. 9.2%

ANSWER: C

17. What were the initial capital of World Bank?

- A. 10,000 million \$
- B. 12,000 million \$
- C. 2,000 million \$
- D. 18,405 million \$

ANSWER: A

18. Which of the following is not included under the management of World bank?

- A. Board of Governor
- B. Executive Committee
- C. Chairman
- D. RBI's Governor

ANSWER: D

19. World Bank provides loan to the member country:

- A. From own funds
- B. From Borrowings
- C. By Guarantee
- D. By issuing the dollars
- E. From (A), (B) and (C)

ANSWER: E

20. When India became member of World Bank?

- A. In 1945
- B. In 1950
- C. In 1975
- D. None of these

ANSWER: A

21. The World Bank formed as a _____ body of IMF.

- A. Complementary Body
- B. Competitive Body
- C. Legal Body
- D. None of the above

ANSWER: A

22. The minimum members of Board of governance in World Bank may be:

- A. 12
- B. 15
- C. 18
- D. 20

ANSWER: A

23. International Finance Corporation formed as a _____ body of the World Bank.

- A. As a subsidiary body
- B. As a main body
- C. As a competitive body
- D. As a holding body

ANSWER: A

24. GATT came into force on:

- A. 1947
- B. 1949

- C. 1959
 - D. 1956
- ANSWER: A

25. GATT is a:
- A. Organization
 - B. Method
 - C. Agreement
 - D. Policy
- ANSWER: A

26. The OECD
- A. Gathers and publishes data on the international economy.
 - B. Provides financial assistance to developing countries.
 - C. Approves international standards and product regulations.
 - D. Includes more developing countries than developed countries.
- ANSWER: A

27. Which of the following issues did the Uruguay Round not address?
- A. Tariffs
 - B. Intellectual Property
 - C. Agriculture
 - D. Migration
- ANSWER: D

28. Members of the World Trade Organization are required to
- A. Eliminate all tariffs.
 - B. Allocate quotas on a first-come-first-served basis.
 - C. Use the WTO's definitions of products, such as what can be called "beer."
 - D. Enforce patent rights for patent holders from other countries.
- ANSWER: D

29. Which of the following is not a member of the WTO?
- A. United States
 - B. China
 - C. Russia
 - D. Iran
- ANSWER: D

30. Which of the following exceptions in the WTO rules does not permit a country to use a tariff or quota that is more restrictive than its bound tariff?
- A. Anti-dumping
 - B. Countervailing duties
 - C. Safeguards
 - D. Preferential trade agreements
- ANSWER: D

31. With regard to the WTO, subsidies are covered in two separate international economic law agreements. Which are they?
- A. The GATT and the Agreement on Subsidies and Countervailing Measures
 - B. The Reform Treaty and the Treaty of Rome
 - C. The North American Free Trade Agreement and the Organization of American States Charter
 - D. The International Monetary Fund's Articles of Agreement and the European Central Bank's Statute

ANSWER: A

32. What are countervailing measures?
- A. Measures which a State may initiate against another State when that other State has legally subsidized any of its domestic industries
 - B. Measures which a national government may initiate against another State when that other State has not subsidized any of its domestic industries
 - C. Measures which a State may initiate against another State when that other State has illegally subsidized any of its domestic industries
 - D. Measures which a national government may initiate against another State when that other State has not illegally subsidized any its domestic industries

ANSWER: C

33. At present how many members are in the WTO?
- A. 160
 - B. 164
 - C. 207
 - D. 195

ANSWER: B

34. Where is the headquarter of the WTO?
- A. New York
 - B. Washington DC
 - C. Geneva
 - D. Austria

ANSWER: C

35. Which of the following statement is not true about the WTO?
- A. WTO is a permanent organization.
 - B. Uruguay round gave the birth to the WTO.
 - C. Ministerial Conference is the highest policy making body of the WTO.
 - D. WTO was officially constituted on 1 January 1991.

ANSWER: D

II SHORT ANSWER TYPE QUESTIONS:

1. “The role of Foreign Direct Investment is rising in comparison to that of foreign trade.” Discuss.
2. What is meant by Economic Planning?
3. What is meant by Five Year Plans?
4. Explain the 11th Five Year Plan.
5. What was the initial name of WTO? Give the reason of change in name.
6. Examine the policy of the government regarding promoting foreign capital in India.
7. Examine TRIMS.
8. Explain the 10th Five Year Plan.
9. Elaborate TRIPS.
10. What changes have been made in the policy since 1991 to liberalize it?
11. Explain Fiscal Policy in India.
12. What are the various components of Fiscal Policy?
13. What is export promotion policies?
14. What have been the achievements of the Five-Year Plans?
15. Examine the impact of WTO on Indian economy.
16. What are the areas in which five-year plans have been not so successful?
17. Discuss briefly the policy of the government of India towards foreign capital.
18. Write a short note on first Five Year Plan.
19. What is portfolio investment?
20. Explain the impact of globalization in reference to upcoming of FDI and FII in Indian economy.
21. Who is the chairman of 12th five-year plan?
22. Explain the role of FDI on retail sector.
23. What are Green Box Subsidies?
24. Give the characteristics of WTO.
25. Discuss the advantages and disadvantages of WTO.
26. Explain WTO and its different Components.
27. Outline in brief the export promotion incentives by the government of India.
28. What is the impact of TRIPS and TRIMS on an economy?
29. Discuss the implication of WTO trade negotiation and policies on Indian Economy.
30. What is WTO and where it is located?

III LONG ANSWER TYPE QUESTIONS:

1. Discuss briefly the need for introducing the Five-Year Plans.
2. What changes have been made in the Foreign Trade Policy since 1991 to liberalize it?
3. Which plan is called rolling plan?
4. What is Portfolio Investment? Explain with the help of an example.
5. Critically evaluate the first two Five Year Plans.
6. What is the difference between FDI and FII?
7. Five Year plan are a way to develop Indian Economy. Explain this statement.
8. Explain the need for inductive planning in India from 8th Five Year Plan.

9. Explain briefly how the targets set for 12th Five Year Plan have been met.
10. What are the objectives of WTO? Discuss its advantages and disadvantages for India.
11. Discuss the implications of WTO on Indian Agriculture.
12. Comment on Foreign Direct Investment (FDI) in Indian economy.
13. Examine the role of WTO with special reference to TRIPS in India.
14. What is the role of FDI in retail sector?
15. Discuss the impact of WTO on Indian industry and agriculture.
16. What were the
17. What is export promotion strategy? Do you think that this policy has helped India in achieving higher levels of economic development?
18. Discuss the role of FEMA in management of Foreign exchange resources and facilitating international trade payments.
19. Critically evaluate all the twelve Five Year Plans till now.
20. What were the shortcomings of the 11th Five Year Plan?
21. Discuss WTO and Green Box Subsidies.
22. What are different types of export promotion policies?
23. “There exists a huge gap between the demand and supply of financial resources for funding various developmental projects in the India. In this concern FDI plays a crucial role in bridging gap.” Comment on the statement.
24. Explain characteristics of WTO. Explain various agreements in emerging economies like India.
25. What are the objectives of economic planning in India?
26. Give the meaning of GATT. How WTO has replaced GATT? Examine the impact of WTO on Indian economy.
27. What have been the failures in the 10th Five Year Plan?
28. What are the factors responsible for effective implementation of Five-Year Plans?
29. Explain in brief the rationale for Economic Planning.
30. Signify the role played by WTO in economic development.

QUESTION BANK

FINANCIAL MODELLING

B.COM (H) - 210

UNIT -1

I MULTIPLE CHOICE QUESTIONS:

1 A function inside another function is called _____

- A. Nested function
- B. Round function
- C. Sum function
- D. Text function

ANSWER A

2 Which of the following is not an underline option in the format cells dialog box?

- A. Double
- B. Single Accounting
- C. Double Accounting
- D. Single Engineering

ANSWER D

3 Formulas in Excel start with

- A. %
- B. =
- C. +
- D. -

ANSWER B

4 The default header for a worksheet is

- A. Username
- B. Date and Time
- C. Sheet tab Name
- D. None

ANSWER D

5 Which of the following is not an option of the spelling dialog box?

- A. Ignore
- B. Ignore all
- C. Edit
- D. Change

ANSWER C

6 Which of the following methods will not enter data in a cell?

- A. Pressing the Esc key
- B. Pressing an arrow key
- C. Pressing the tab key
- D. Clicking the enter button to the formula bar

ANSWER A

- 7 The cell reference for cell range of G2 to M12 is _____
- A. G2.M12
 - B. G2;M12
 - C. G2:M12
 - D. G2-M12
- ANSWER C
- 8 What is the keyboard shortcut for creating a chart from the selected cell range?
- A. F2
 - B. F4
 - C. F8
 - D. F11
- ANSWER D
- 9 The Software which contains rows and columns is called _____
- A. Database
 - B. Drawing
 - C. Spreadsheet
 - D. Word processing
- ANSWER C
- 10 You can group noncontinuous worksheets with
- A. The alt+ enter key
 - B. The ctrl key and mouse
 - C. The shift key and the mouse
 - D. The group button on the standard toolbar
- ANSWER B
- 11 Which of the following is not a valid Zoom percentage in Excel?
- A. 10
 - B. 100
 - C. 300
 - D. 500
- ANSWER D
12. The spelling tool is placed on _____ toolbar
- A. Standard
 - B. Formatting
 - C. Drawing
 - D. Reviewing
- ANSWER A
13. If you need a text to show vertically in a cell. How will you achieve this?
- A. Choose Vertical on Text alignment in Format Cells dialog box
 - B. Choose 90 Degrees in Orientation of Format Cells dialog box
 - C. Choose Distributed from the Vertical drop down list of Format Cells dialog box

D. Choose Center Across Selection from Horizontal combo box in Format Cells dialog box

ANSWER B

14. Can you set 0.5 inch left indentation for a cell in Excel?
- A. Excel does not have indentation feature
 - B. You can specify indentation only if you turn the rulers on
 - C. Indentation can be set from Format Cells dialog box
 - D. The indentation can be specified only when printing

ANSWER C

15. You can automatically adjust the size of text in a cell if they do not fit in width by
- A. Double clicking on the right border of column header
 - B. From Format choose Columns and then Autofit Selection
 - C. From Format Cells dialog box mark Shrink to fit check box
 - D. All of the above

ANSWER C

16. Formatting a cell in Currency, you can specify

- A. Decimal Places
- B. Currency Symbol
- C. Both of above
- D. None of above

ANSWER C

17. Formatting a cell in Number format you can't set

- A. Decimal Places
- B. Use 1000 separator
- C. Negative numbers
- D. Currency Symbol

ANSWER D

18. What is entered by the function =today()

- A. The date value for the day according to system clock
- B. The time value according to system clock
- C. Today's date as Text format
- D. All of above

ANSWER A

19. Which function will you use to enter current time in a worksheet cell?

- A. =today()
- B. =now()
- C. =time()
- D. =current Time()

ANSWER B

20. Special category of Number tab in Format Cells dialog box can be used to apply formats like
- A. Zip Code
 - B. Phone Number
 - C. Both of above
 - D. None of above
- ANSWER C
21. Merge cells option can be applied from
- A. Format Cells dialog box Alignment Tab
 - B. Formatting toolbar
 - C. Both of above
 - D. None of above
- ANSWER A
22. Pre-made sheet formats like Simple, Classic, Accounting, Colorful etc. can be applied from
- A. from Format >> Cells
 - B. from Format >> Autoformat
 - C. from Table >> Autoformat
 - D. All of above
- ANSWER B
23. Which of the following format you can decide to apply or not in AutoFormat dialog box?
- A. Number format
 - B. Border format
 - C. Font format
 - D. All of above
- ANSWER D
24. How can you remove borders applied in cells?
- A. Choose None on Border tab of Format cells
 - B. Open the list on Border tool in Formatting toolbar then choose first tool (no border)
 - C. Both of above
 - D. None of above
- ANSWER C
25. Where can you set the shading color for a range of cells in Excel?
- A. Choose required color from Patterns tab of Format Cells dialog box
 - B. Choose required color on Fill Color tool in Formatting toolbar
 - C. Choose required color on Fill Color tool in Drawing toolbar
 - D. All of above
- ANSWER D
26. What is the intersection of a column and a row on a worksheet called?
- A. Column
 - B. Value

- C. Address
 - D. Cell
- ANSWER: D

27. Which function in Excel tells how many numeric entries are there?

- A. NUM
- B. COUNT
- C. SUM
- D. CHKNUM

ANSWER: B

28. A features that displays only the data in column (s) according to specified criteria:

- A. Formula
- B. Sorting
- C. Filtering
- D. Pivot

ANSWER: C

29. Statistical calculations and preparation of tables and graphs can be done using

- A. Adobe Photoshop
- B. Excel
- C. Notepad
- D. Power Point

ANSWER: B

30. What type of chart will you use to compare performance of two employees in the year 2016?

- A. Column Chart
- B. Line Chart
- C. Pie Chart
- D. Dot Chart

ANSWER: B

31. Which one is not a Function in MS Excel?

- A. SUM
- B. AVG
- C. MAX
- D. MIN

ANSWER: B

32. Functions in MS Excel must begin with ____

- A. An () sign
- B. An Equal Sign
- C. A Plus Sign
- D. A > Sign

ANSWER: B

33. Which function in Excel checks whether a condition is true or not?

- A. SUM
- B. COUNT
- C. IF
- D. AVERAGE

ANSWER: C

34. In Excel, Columns are labelled as ____

- A. A, B, C, etc
- B. 1,2,3 etc
- C. A1, A2, etc.
- D. \$A\$1, \$A\$2, etc.

ANSWER: A

35. The Greater Than sign (>) is an example of _____ operator.

- A. Arithmetic
- B. Logical
- C. Conditional
- D. Greater

ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

1. What is a function in Excel?
2. What is the use of comment?
3. How would you add comments to a cell?
4. How would you format a cell? What are the options?
5. What is the syntax of the VLOOKUP function?
6. What are the Advantages and disadvantages of using VLOOKUP in excel?
7. How we can view a cell comment?
8. What is the default style for new data keyed in a new workbook?
9. What do you understand by 'Formula Palette'?
10. How would you refer to a range of cells that starts in cell D1 and goes over to column H down to row 10?
11. What function interchange displays row data in column or column data in a row?
12. Do PivotTables have any drawbacks? How can they be solved?
13. Define pivot chart
14. What is Freeze Panes in MS-Excel?
15. Which function is used to determine the day of the week for a date?

III LONG ANSWER TYPE QUESTIONS:

1. What is MS Excel? What are a few of the most useful functions in Excel? How do you use them?
2. What are the most important data formats seen in Excel, and how are they used?
3. What is the order of operations used when evaluating formulas in Excel?
4. How can you resize the column? What is the AND function does in Excel?
5. Define the role of conditional formatting in financial models.
6. What are LOOKUP and VLOOKUP in excel sheet? What to use when?
7. Differentiate between VLOOKUP & HLOOKUP.
8. What is a PivotTable, and when would you use one? What is the key PivotTable 'sections' into which users can drag columns?
9. Discuss the data analysis pack in financial modeling.
11. How can you sum up the Rows and Column number quickly in the Excel sheet?
12. What is the use of Name Box in MS-Excel?
13. Give an example using 'IF'; and nested 'IF' to explain the conditional process.
14. What is the difference among COUNT, COUNTA, COUNTIF and COUNTBLANK in Ms-Excel?
15. What is the "What If" condition in Excel formulas?

UNIT II

I MULTIPLE CHOICE QUESTIONS:

1. You can auto fit the width of column by
 - A. Double clicking on the column name on column header
 - B. Double click on the cell pointer in worksheet
 - C. Double clicking on column right border on column header
 - D. Double clicking on the column left border of column headerANSWER C
2. Long text can be broken down into many lines within a cell. You can do this through
 - A. Wrap Text in Format >> Cells
 - B. Justify in Edit >> Cells
 - C. Text Wrapping in Format >> Cells, Layout tab
 - D. All of aboveANSWER A
3. MS Excel provides the default value for step in Fill Series dialog box
 - A. 0
 - B. 1
 - C. 5
 - D. 10ANSWER B

4. When a row of data is to be converted into columns
- A. Copy the cells in row, select the same number of cells in row and paste
 - B. Copy the cells in column then choose Edit >> Paste Special, then click Transpose and OK
 - C. Copy the cells then go to Format >> Cells then on Alignment tab click Transpose check box and click OK
 - D. Select the cells then place the cell pointer on new cell and choose Edit >> Paste Special, mark Transpose check box and click OK.

ANSWER D

5. Ctrl + D shortcut key in Excel will
- A. Open the font dialog box
 - B. Apply double underline for the active cell
 - C. Fill down in the selection
 - D. None of above

ANSWER C

6. The short cut key Ctrl + R is used in Excel to
- A. Right align the content of cell
 - B. Remove the cell contents of selected cells
 - C. Fill the selection with active cells to the right
 - D. None of above

ANSWER C

7. The command Edit >> Fill Across Worksheet is active only when
- A. One sheet is selected
 - B. When many sheets are selected
 - C. When no sheet is selected
 - D. None of above

ANSWER B

8. Which of the following series type is not valid for Fill Series dialog box?
- A. Linear
 - B. Growth
 - C. Autofill
 - D. Time

ANSWER D

9. Which of the following you can paste selectively using Paste Special command?
- A. Validation
 - B. Formats
 - C. Formulas
 - D. All of above

ANSWER D

10. Paste Special allows some operation while you paste to new cell. Which of the following operation is valid?

- A. Square
- B. Percentage
- C. Goal Seek
- D. Divide

ANSWER D

11. Edit >> Delete command

- A. Deletes the content of a cell
- B. Deletes Formats of cell
- C. Deletes the comment of cell
- D. Deletes selected cells

ANSWER D

12. To remove the content of selected cells you must issue _____ command

- A. Edit >> Delete
- B. Edit >> Clear >> Contents
- C. Edit >> Clear >> All
- D. Data >> Delete

ANSWER B

13. The Delete key of keyboard is assigned to which command in Excel?

- A. Edit >> Clear >> Contents
- B. Edit >> Clear >> All
- C. Edit >> Delete
- D. All of above

ANSWER A

14. If you need to remove only the formatting done in a range (numbers and formula typed there should not be removed), you must

- A. From Edit menu choose Clear and then Formats
- B. From Edit menu choose Delete
- C. Click on Remove Formatting tool on Standard Toolbar
- D. Double click the Format Painter and then press Esc key in keyboard

ANSWER A

15. By default Excel provides 3 worksheets. You need only two of them, how will you delete the third one?

- A. Right click on Sheet Tab of third sheet and choose Delete from the context menu
- B. Click on Sheet 3 and from Edit menu choose Delete
- C. Both of above
- D. None of above

ANSWER: A

16. Which of the following action removes a sheet from workbook?
- A. Select the sheet, then choose Edit >> Delete Sheet
 - B. Select the sheet then choose Format >> Sheet >> Hide
 - C. Both of above
 - D. None of above
- ANSWER: A
17. While Finding and Replacing some data in Excel, which of the following statement is valid?
- A. You can Find and Replace within the sheet or workbook
 - B. Excel does not have option to match case for find
 - C. Both are valid
 - D. None are valid
- ANSWER: A
18. Which of the following is not true about Find and Replace in Excel
- A. You can search for bold and replace with italics
 - B. You can decide whether to look for the whole word or not
 - C. You can search in formula too
 - D. You can search by rows or columns or sheets
- ANSWER: D
19. You can move a sheet from one workbook into new book by
- A. From Edit menu choose Move or Copy sheet, mark the Create a ccopy and Click OK
 - B. From Edit menu choose Move of Copy then choose (Move to end. and click OK
 - C. From Edit menu choose Move or Copy then select (new book. from To Book list and click OK
 - D. None of above
- ANSWER: C
20. What is the short cut key to replace a data with another in sheet?
- A. Ctrl + R
 - B. Ctrl + Shift + R
 - C. Ctrl + H
 - D. Ctrl + F
- ANSWER: C
21. You can set Page Border in Excel from
- A. From Border tab in Format Cells dialog box
 - B. From Border tool in Formatting toolbar
 - C. From Line Style tool in Drawing toolbar
 - D. You cannot set page border in Excel
- ANSWER: D

22. When all the numbers between 0 and 100 in a range should be displayed in Red Color, apply.
- A. Use =if() function to format the required numbers red
 - B. Apply Conditional Formatting command on Format menu
 - C. Select the cells that contain number between 0 and 100 then click Red color on Text Color tool
 - D. All of above
- ANSWER: B

23. You can check the conditions against _____ when applying conditional formatting
- A. Cell value
 - B. Formula
 - C. Both of above
 - D. None of above
- ANSWER: C

24. Which of the following is not true regarding Conditional Formatting?
- A. You can add more than one condition to check
 - B. You can set condition to look for Bold and apply Italics on them.
 - C. You can apply Font, border and pattern formats that meets the specified conditions
 - D. You can delete any condition from Conditional Formatting dialog box if it is not required.
- ANSWER: B

25. Which of the following is invalid statement?
- A. Sheet tabs can be colored
 - B. Some picture can be applied as a background of a sheet
 - C. You can set the column width automatically fit the amount of text
 - D. The width of a row and be specified manually or fit automatically
- ANSWER: D

26. The process of arranging the items of a column in some sequence or order is known as:
- A. Arranging
 - B. Autofill
 - C. Sorting
 - D. Filtering
- ANSWER: C

27. The ____ feature of MS Excel quickly completes a series of data
- A. Auto Complete
 - B. Auto Fill
 - C. Fill Handle
 - D. Sorting
- ANSWER: B

28. What type of chart is useful for comparing parts of a whole?
A. Pie Chart
B. Column Chart
C. Line Chart
D. Dot Graph
ANSWER: A
29. In Excel, Rows are labelled as _____
A. A, B, C, etc
B. 1,2,3 etc
C. A1, A2, etc.
D. \$A\$1, \$A\$2, etc.
ANSWER: B
30. What do you use to create a chart?
A. Pie Wizard
B. Excel Wizard
C. Data Wizard
D. Chart Wizard
ANSWER: D
31. How will you graphically represent expenditure in different departments?
A. Column Chart
B. Line Chart
C. Pie Chart
D. Dot Chart
ANSWER: C
32. What type of chart is good for single series of data?
A. Column Chart
B. Line Chart
C. Pie Chart
D. Cone Chart
ANSWER: C
33. The basic unit of a worksheet into which you enter data in Excel is called a
A. cell
B. table
C. box
D. column
ANSWER: A
34. How many sheets are there, by default, when we create a new Excel file?
A. 1
B. 3
C. 5

D. 10
ANSWER: B

35. In Excel, which one denoted a range from B1 through E5
- A. B1 - E5
 - B. B1:E5
 - C. B1 to E5
 - D. B1\$E5
- ANSWER: B

II SHORT ANSWER TYPE QUESTIONS:

1. What is the advanced functions of MS-Excel as a tool in financial modelling?
2. What is the difference between absolute and relative cell references? In which situations would you use each?
3. How cell reference is useful in the calculation?
4. What are some best practices when creating complex models in Excel?
5. How do you build a financial model?
Describe to explain the following shortcut keys of MS-EXCEL. Give hypothetical examples:
6. F2
7. F5
8. Ctrl +
9. Alt+ Shift+ F1
10. Ctrl + F9
11. Ctrl + Tab
12. ALT+=
13. Ctrl + Space
14. CTRL+ Arrow key
15. F11

III LONG ANSWER TYPE QUESTIONS:

1. Explain how financial statement model is forecasted on the basis of the past historical data. Create a forecasted financial statement model for the same.
2. What is financial modeling? Why is it useful? Is it only confined to company's financial affairs?
3. How do you forecast Debt in your Financial Model?
4. Elaborate on forecasting free cash flow
5. What is the process of building the template.
6. Define forecasting of financial statement.
7. Can you tell which excel function would slow down the recalculation process of a large financial model?
8. What are the design principles of a good financial model?
9. Name three of the most common financial modeling best practices

10. What is an array function and how would you use it?
11. What is working capital and how do you forecast it?
12. Where do you pick the historical Financial Statements?
13. Which Financial Model Layout do you prefer?
14. Explain the components of a financial model.
15. Build a template of a Financial Model.

UNIT III

I MULTIPLE CHOICE QUESTIONS:

1. A firm has a higher quick (or acid test) ratio than the industry average, which implies.
 - A. the firm has a higher P/E ratio than other firms in the industry.
 - B. the firm is more likely to avoid insolvency in short run than other firms in the industry.
 - C. the firm may be less profitable than other firms in the industry.
 - D. A and B.
 - E. B and C.

ANSWER E

2. _____ a snapshot of the financial condition of the firm at a particular time.
 - A. The balance sheet provides
 - B. The income statement provides
 - C. The statement of cash flows provides
 - D. All of the above provide

ANSWER A

3. A firm has a higher asset turnover ratio than the industry average, which implies
 - A. the firm has a higher P/E ratio than other firms in the industry.
 - B. the firm is more likely to avoid insolvency in the short run than other firms in the industry.
 - C. the firm is more profitable than other firms in the industry.
 - D. the firm is utilizing assets more efficiently than other firms in the industry.

ANSWER D

4. If you wish to compute economic earnings and are trying to decide how to account for inventory, _____.
 - A. FIFO is better than LIFO
 - B. LIFO is better than FIFO
 - C. FIFO and LIFO are equally good
 - D. FIFO and LIFO are equally bad

ANSWER B

5. _____ of the profitability of the firm over a period of time such as a year.
 - A. The balance sheet is a summary
 - B. The income statement is a summary

- C. That statement of cash flows is a summary
- D. The audit report is a summary

ANSWER B

6. If the interest rate on debt is higher than ROA, then a firm will _____ by increasing the use of debt in the capital structure.
- A. increase the ROE
 - B. not change the ROE
 - C. decrease the ROE
 - D. change the ROE in an indeterminable manner

ANSWER C

7. A firm has a (net profit/pretax profit) ratio of 0.6, a leverage ratio of 2, a (pretax profit/EBIT) of 0.6, an asset turnover ratio of 2.5, a current ratio of 1.5, and a return on sales ratio of 4%. The firm's ROE is _____.
- A. 4.2%
 - B. 5.2%
 - C. 6.2%
 - D. 7.2%

ANSWER D

8. A measure of asset utilization is _____.
- A. sales divided by working capital
 - B. return on total assets
 - C. return on equity capital
 - D. operating profit divided by sales

ANSWER B

9. FOX Company has a ratio of (total debt/total assets) that is above the industry average, and a ratio of (long term debt/equity) that is below the industry average. These ratios suggest that the firm _____.
- A. utilizes assets effectively
 - B. has too much equity in the capital structure
 - C. has relatively high current liabilities
 - D. has a relatively low dividend payout ratio

ANSWER C

10. Which of the following ratios gives information on the amount of profits reinvested in the firm over the years:
- A. Sales/total assets
 - B. Debt/total assets
 - C. Debt/equity
 - D. Retained earnings/total assets

ANSWER D

11. Fundamental analysis uses _____.
- A. earnings and dividends prospects
 - B. relative strength
 - C. price momentum
 - D. A and B
- ANSWER A
12. What best explains why a firm's ratio of (long-term debt/total capital) is lower than the industry average, while the ratio of (income before interest and taxes/debt interest charges) is lower than the industry average.
- A. The firm pays lower interest on long-term debt than the average firm
 - B. The firm has more short-term debt than average
 - C. The firm has a high ratio of (current assets/current liabilities)
 - D. The firm has a high ratio of (total cash flow/long term debt)
 - E. none of the above.
- ANSWER B
13. Model which refers possibility for management to conduct sensitivity analysis can be categorized under
- A. Investment planning models
 - B. Financial planning models
 - C. Cost planning models
 - D. Revenues forecast models
- ANSWER B
14. Amount of money by which total revenues exceed breakeven revenues is classified as
- A. margin of safety
 - B. margin of profit
 - C. margin of loss
 - D. margin of income
- ANSWER A
15. Which of the following is not the reason financial analysis is useful to investors?
- A. Investors use financial statement analysis to assess the risk associated with their expected returns.
 - B. Current position is the base on which future performance must be built
 - C. Past performance is often a good indicator of future performance
 - D. Future Trends can always be accurately predicted
- ANSWER D
16. In relation to a company, creditors are least concerned with?
- A. Short term liquidity
 - B. Its future share prices
 - C. Its profitability
 - D. Its solvency
- ANSWER B

17 .In relation to a company, investors are least concerned with?

- A. Its future share price
- B. Its short term liquidity
- C. Its profitability
- D. Its solvency.

ANSWER B

18. Which of the following is not true of trend analysis?

- A. It concentrates on the relative size of current assets.
- B. It examines changes over time
- C. It examines the relationship of percentage changes to each other.
- D. It concentrates on different Geographic segments of production

ANSWER C

19. In order to have a smooth rate of growth we use to find?

- A. CAGR
- B. Common size statements
- C. Friends statements
- D. Financial ratios

ANSWER A

20. Which of the following statements are true in relation to common size statements analysis?

- A. Examines change over time
- B. May concentrate on the relative size of current assets
- C. Uses changes in euro amount and percentage terms to identify patterns
- D. It concentrates on different Geographic segments of production.

ANSWER B

21. The difference between total current assets and total current liabilities is

- A. Trade working capital
- B. Accounting working capital
- C. Operating working capital
- D. Net assets

ANSWER B

22. Which of the following is a short-term liquidity ratio ?

- A. Inventory turnover
- B. Quick ratio
- C. Cash ratio
- D. Current ratio
- E. ALL OF THE ABOVE

ANSWER E

23. Operating performance is best measured by?

- A. Price earnings ratio
- B. Margin on sales
- C. ROTA
- D. Asset turnover

ANSWER C

24. If a company share prices Falls then its P/E ratio and dividend yield:

- A. P/E ratio increases and dividend yield decreases
- B. P/E ratio increases and dividend yield increases
- C. P/E ratio decreases and dividend yield increases
- D. P/E ratio decreases and dividend yield decreases

ANSWER C

25. Liquid assets is determined by

- A. Current assets – stock - Prepaid expenses
- B. Current assets + stock + prepaid expenses
- C. Current assets + Prepaid expenses
- D. None of the above

ANSWER: A

26. Collection of debtors

- A. Decreases current ratio
- B. Increases current ratio
- C. Has no effect on current ratio
- D. None of the above

ANSWER: A

27. Determine Operating ratio, if operating expenses is Rs 60,000, Sales is Rs 9,40,000, Sales Return is Rs 40,000 and Cost of net goods sold is Rs 6,60,000.

- A. 80%
- B. 15%
- C. 25%
- D. 11%

ANSWER: A

28. Determine Debtors turnover ratio if, closing debtors is Rs 40,000, Cash sales is 25% of credit sales and excess of closing debtors over opening debtors is Rs 20,000.

- A. 4 times
- B. 2 times
- C. 6 times
- D. 8 times

ANSWER: A

29. What will be the Gross Profit if, total sales is Rs 2,60,000, cost of net goods sold is Rs 2,00,000 and sales return is Rs 10,000?

- A. 13%
- B. 28%
- C. 26%
- D. 20%

ANSWER: D

30. Liquidity ratios are expressed in:

- A. Pure ratio form
- B. Percentage
- C. Rate or time
- D. None of the above

ANSWER: A

31. Return on Proprietors funds is also known as:

- A. Return on net worth
- B. Return on Shareholders fund
- C. Return on Shareholders' Investment
- D. All of the above

ANSWER: D

32. Which of the following is not included in current assets?

- A. Debtors
- B. Stock
- C. Cash at bank
- D. Cash in hand

ANSWER: B

33. Determine stock turnover ratio if, opening stock is Rs 31,000, Closing stock is Rs 29,000, Sales is Rs 3,20,000 and Gross profit ratio is 25% on sales.

- A. 31 times
- B. 11 times
- C. 8 times
- D. 32 times

ANSWER: C

34. Quick ratio is 1.8:1, current ratio is 2.7:1 and current liabilities are Rs 60,000. Determine value of stock.

- A. Rs 54,000
- B. Rs 60,000
- C. Rs 1,62,000
- D. None of the above

ANSWER: A

35. The ideal level of liquid ratio is
- A. 3:3
 - B. 4:4
 - C. 5:5
 - D. All of the above
- ANSWER: A

II SHORT ANSWER TYPE QUESTIONS:

1. Which ratios do you calculate for Financial Modeling?
2. Explain briefly the earnings per share formula.
3. Write short note on DCF Model of valuation.
4. Discuss financial ratios and company analysis.
5. What is the market-based methods?
6. Define sensitivity analysis.
7. What are the characteristics of a good financial model
8. How is assumption sheet prepared in modeling the statements?
9. Define Fundamentals of EV/EBITDA.
10. Why would two companies merge? What major factors drive mergers and acquisitions?
11. What is sensitivity analysis in financial modeling? Why and When it is used?
12. What is an Enterprise Value?
13. How EPS affect the financial position of a firm?
14. What are the financial modelling conventions and methodologies used in developing the Financial Statements Modules?
15. What is EBIT and show how it is computed in Excel?

III LONG ANSWER TYPE QUESTIONS:

1. Which valuation tools are used once you have prepared the Financial Model.
2. Explain the Financial Statements. How are the three Financial Statements linked? Support your Answer with illustration.
3. Distinguish between 'sensitivity analysis' and 'probability analysis' giving example.
4. Explain Financial Ratio Analysis using MS-Excel.
5. Explain the Various approaches to valuation.
6. What in your opinion makes a good financial model?
7. Along with an illustration explain the preparation of assumption sheet for future forecasting
8. Explain the scenario analysis with an example describing all the three situations possible.
9. What is the probability analysis? Explain the best- and worst-case situation with the help of an example.
10. Elaborate the DCF and Merger and Acquisition model of valuation.
11. Prepare a financial model and access a company's financial position with the help of ratio analysis.
12. Elaborate on Income Statement Module.
13. Compute the various accounting ratios.
14. Is Return on Equity important in making investment decisions?
15. Cite few examples when DCF model is used in finance.

UNIT IV

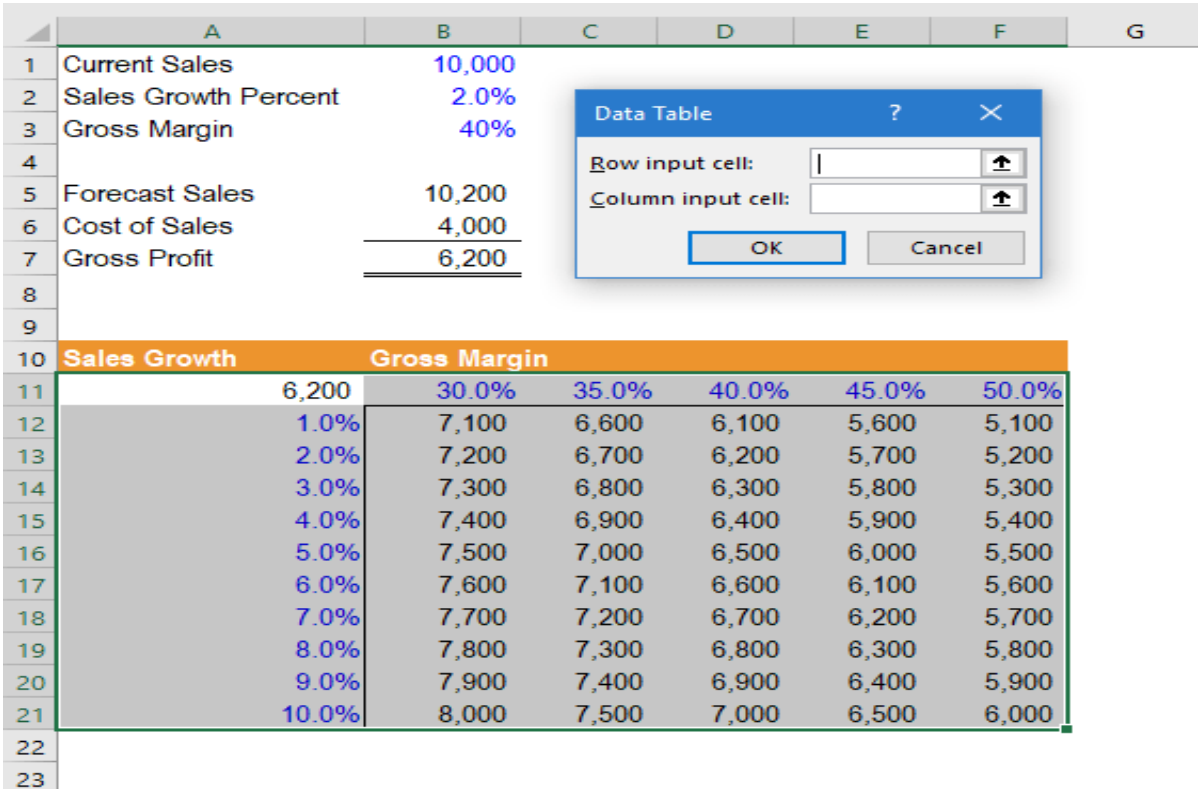
I MULTIPLE CHOICE QUESTIONS:

- Which of the following is not a common Excel audit tool used to test a model's integrity (i.e. whether the model contains errors)?
 - Go to special
 - Goal seek
 - Trace precedents
 - Test data

ANSWER B

- Which of the following is the best way to make a financial model easier to audit?
 - Keep all formulas on one spreadsheet
 - Name all cells within the model
 - Create a legend for all formulas used
 - Separate assumptions from formulas

ANSWER D

- A financial analyst wants to sensitize the gross profit of a company using two major inputs: gross margin (horizontal inputs) and sales growth percentage (vertical inputs). Given the screenshot below, what values should be entered for the row input cell and column input cell to generate the data table?
 

	A	B	C	D	E	F	G
1	Current Sales	10,000					
2	Sales Growth Percent	2.0%					
3	Gross Margin	40%					
4							
5	Forecast Sales	10,200					
6	Cost of Sales	4,000					
7	Gross Profit	6,200					
8							
9							
10	Sales Growth	Gross Margin					
11		6,200	30.0%	35.0%	40.0%	45.0%	50.0%
12		1.0%	7,100	6,600	6,100	5,600	5,100
13		2.0%	7,200	6,700	6,200	5,700	5,200
14		3.0%	7,300	6,800	6,300	5,800	5,300
15		4.0%	7,400	6,900	6,400	5,900	5,400
16		5.0%	7,500	7,000	6,500	6,000	5,500
17		6.0%	7,600	7,100	6,600	6,100	5,600
18		7.0%	7,700	7,200	6,700	6,200	5,700
19		8.0%	7,800	7,300	6,800	6,300	5,800
20		9.0%	7,900	7,400	6,900	6,400	5,900
21		10.0%	8,000	7,500	7,000	6,500	6,000
22							
23							

- A. Row input cell: B11; column input cell: A12
- B. Row input cell: A12; column input cell: B11
- C. Row input cell: B3; column input cell: B2
- D. Row input cell: B2; column input cell: B3

ANSWER C

4. When structuring a financial model in Excel, it is ideal that
- A. Processing is as detailed and complicated as possible
 - B. Inputs are entered more than once whenever needed
 - C. Outputs are kept at the very end of the model so they are not quickly accessible
 - D. Processing is broken down into simple steps

ANSWER D

5. Which of the following is not true about using shortcut keys in Excel?
- A. Press Alt + I + R to insert new row in a worksheet
 - B. Press Alt + F11 to insert new worksheet
 - C. Press Ctrl + Spacebar to select an entire column
 - D. Press Ctrl + Pagedown/Pageup to move between worksheets

ANSWER B

6. What is the best practice in financial modeling to distinguish between input and formula/output cells?
- A. Blue font for input cells and black font for formula cells
 - B. Black font for input cells and blue font for formula cells
 - C. Unbolded black font for input cells and bolded black font for formula cells
 - D. Bolded black font for input cells and unbolded black font for formula cells

ANSWER A

7. Suppose that in a worksheet cell A5 contains the formula “=A1”. How many times, when editing the formula in A5, would you press F4 to anchor the column of A1? In other words, how many times would you press F4 to turn “=A1” into “=\$A1”?
- A. 1
 - B. 2
 - C. 3
 - D. 4

ANSWER C

8. Which Excel function is likely to be used to display the result as shown in the screenshot below:

	A	B	C	D	E	F	G
1	Current Sales	10,000					
2	Sales Growth Percent	2.0%					
3	Gross Margin	40%					
4							
5	Forecast Sales	10,200					
6	Cost of Sales	4,000					
7	Gross Profit	6,200					
8							
9							
10	Sales Growth	Gross Margin					
11	6,200	30.0%	35.0%	40.0%	45.0%	50.0%	
12	1.0%	7,100	6,600	6,100	5,600	5,100	
13	2.0%	7,200	6,700	6,200	5,700	5,200	
14	3.0%	7,300	6,800	6,300	5,800	5,300	
15	4.0%	7,400	6,900	6,400	5,900	5,400	
16	5.0%	7,500	7,000	6,500	6,000	5,500	
17	6.0%	7,600	7,100	6,600	6,100	5,600	
18	7.0%	7,700	7,200	6,700	6,200	5,700	
19	8.0%	7,800	7,300	6,800	6,300	5,800	
20	9.0%	7,900	7,400	6,900	6,400	5,900	
21	10.0%	8,000	7,500	7,000	6,500	6,000	
22							

- A. Go to special > Comments
- B. Go to special > Constants
- C. Go to special > Formulas
- D. Go to special > Objects

ANSWER C

9. Which of the following is not an objective for solid model processing?

- A. Easy to maintain
- B. Accurate processing
- C. Opacity
- D. Transparency

ANSWER C

10. When dealing with models containing multiple rows of data, users can use the _____ function in Excel to create expandable/contractable sections in the worksheet for easy auditing.

- A. Text to Columns
- B. Group
- C. Filter
- D. Tables

ANSWER B

11. The best financial models should
- A. Keep things as simple as possible while provides sufficient detail for decision making
 - B. Offer users a high degree of detail and precision
 - C. Be easy to follow and audit
 - D. Be very simple and have the minimum level of detail

ANSWER A

12. Which is the correct formula for finding average in excel?

- A. =Avg(AB)
- B. =Average(A1;B1)
- C. = AVERAGE(A1:B1)
- D. =Average(A1B1)

ANSWER C

13. Sales to Total Asset Base Ratio is:

- A. Basic asset turnover (BAT)
- B. Current asset turnover (CAT)
- C. Total asset turnover (TAT)
- D. Net asset turnover (NAT)

ANSWER C

14. What can be said about a Financial Model

- A. Excel spreadsheet with numbers
- B. Calculation tool
- C. A decision-making tool
- D. Excel containing historical financial data

ANSWER C

15. Which is the application of a financial model?

- A. Equity Research
- B. Project Appraisal
- C. Merger Valuation
- D. All of the above

ANSWER D

16. If Current Asset= 30 million, Current Liability= 15million, Inventory= 7million, what is its Quick Ratio?

- A. 3.1
- B. 2
- C. 1.53
- D. 2.5

ANSWER C

17. Calculate the cost of equity from the data: Beta= 1.5, The risk free rate is 4%, Market return is 10%.
- A. 11%
 - B. 12%
 - C. 13%
 - D. 9%

ANSWER C

18. DCF stands for:
- A. Discounted Capital Flow
 - B. Discounted Commission Flow
 - C. Discounted Capacity Flow
 - D. Discounted Cash Flow

ANSWER D

19. EBITDA stands for:
- A. Earnings Behalf of Interest, Taxes, Depreciation and Amortization
 - B. Earnings Before Interest, Taxes, Depreciation and Amortization
 - C. Earnings Before Income Taxes, Depreciation and Amortization
 - D. Earnings Between Interest, Taxes, Depreciation and Amortization

ANSWER B

20. What is the Color Formatting Code used in Excel?
- A. Blue Font Color: All formulas, Black Font Color: All direct links, Green Font Color: All hard-coded
 - B. Blue Font Color: All direct links, Black Font Color: All hard-coded, Green Font Color: All formulas
 - C. Blue Font Color: All hard-coded, Black Font Color: All formulas, Green Font Color: All direct links
 - D. Blue Font Color: All hard-coded, Black Font Color: All direct links, Green Font Color: All formulas.

ANSWER C

21. What is Net block?
- A. Sum total of all assets of the company valued at their cost of acquisition
 - B. Shareholders' equity + total liabilities
 - C. assets that help companies reap economic benefits over a period of time
 - D. The gross block less accumulated depreciation on assets

ANSWER D

22. If you want to generate values for a target output by changing multiple inputs and setting multiple constraints on the inputs, you should use the _____ function in Excel.

- A. Solver
- B. Scenario

- C. Goal seek
- D. Data table

ANSWER A

23. Which of the following is not an objective for solid model processing?
- A. Easy to maintain
 - B. Accurate processing
 - C. Opacity
 - D. Transparency

ANSWER C

24. Which of the following is not a core building block of a robust financial model?
- A. Inputs
 - B. Interpretation
 - C. Processing
 - D. Outputs

ANSWER B

25. Consider the example below. What formula should be entered in cell B2 to generate the correct Net Present Value (NPV) of the investment?

	A	B	C	D	E
1					
2	NPV	\$416.99			
3	Discount Rate	10.0%			
4					
5	Year	0	1	2	3
6	Free Cash Flows	\$100.00	\$100.00	\$100.00	\$100.00

- A. =NPV(B3,B6:E6)
- B. =NPV(B3,B6:E6)+B6
- C. =NPV(B3,B5:E6)
- D. =NPV(B3,B6:E6)-B6

ANSWER B

26. Time value of money indicates that
- A. A unit of money obtained today is worth more than a unit of money obtained in future
 - B. A unit of money obtained today is worth less than a unit of money obtained in future
 - C. There is no difference in the value of money obtained today and tomorrow
 - D. None of the above

ANSWER: A

27. Time value of money supports the comparison of cash flows recorded at different time period by
- A. Discounting all cash flows to a common point of time
 - B. Compounding all cash flows to a common point of time
 - C. Using either a or b
 - D. None of the above
- ANSWER: C
28. If the nominal rate of interest is 10% per annum and there is quarterly compounding, the effective rate of interest will be:
- A. 10% per annum
 - B. 10.10 per annum
 - C. 10.25% per annum
 - D. 10.38% per annum
- ANSWER: D
29. Relationship between annual nominal rate of interest and annual effective rate of interest, if frequency of compounding is greater than one:
- A. Effective rate > Nominal rate
 - B. Effective rate < Nominal rate
 - C. Effective rate = Nominal rate
 - D. None of the above
- ANSWER: A
30. Heterogeneous cash flows can be made comparable by
- A. Discounting technique
 - B. Compounding technique
 - C. Either a or b
 - D. None of the above
- ANSWER: C
31. During planning period, a marginal cost for raising a new debt is classified as
- A. debt cost
 - B. relevant cost
 - C. borrowing cost
 - D. embedded cost
- ANSWER: B
32. Cost of common stock is 14% and bond risk premium is 9% then bond yield will be
- A. 0.0156
 - B. 0.05
 - C. 0.23
 - D. 0.6428
- ANSWER: B

33. Cost of common stock is 14% and bond risk premium is 9% then bond yield will be
A. 0.0156
B. 0.05
C. 0.23
D. 0.6428
ANSWER: B
34. Cost of common stock is 13% and bond risk premium is 5% then bond yield would be
A. 18
B. 0.026
C. 0.08
D. 0.18
ANSWER: C
35. In weighted average cost of capital, a company can affect its capital cost through
A. policy of capital structure
B. policy of dividends
C. policy of investment
D. all of the above
ANSWER: D

II SHORT ANSWER TYPE QUESTIONS:

1. What is working capital and how do you forecast it?
2. What is the difference between NPV & XNPV?
3. How Financial Modeling tests are beneficial?
4. Explain discounted cash flow approach.
5. Explain prerequisites to learning financial modeling.
6. Define Time value of money.
7. What is cost of capital?
8. What is annuity? How can it be computed?
9. What is discounting?
10. What is compounding?
11. What is meant by annuity due?
12. Discuss the forecasting methods.
13. Discuss the budgeting process?
14. How do you calculate the WACC?
15. How do you forecast revenues?

III LONG ANSWER TYPE QUESTIONS:

1. Let's say that you have bought new equipment. How it would affect 3 financial statements.
2. You have an opportunity to invest rupees 100000 for 10 years at a nominal interest rate of 8% full stop create a model to calculate the effective annual interest rate you will earn and the amount your investment will grow to that is its future value for various numbers of compounding periods per year set up a one input data table to show the effective interest rates and the future values of the investment for daily weekly biweekly, monthly quarterly, semiannual and annual compounding.

3. Distinguish between annuity due and ordinary annuity.
4. Explain the capital budgeting models with respect to financial modelling
5. Explain forecasting methods viz. 'moving average' & 'exponential smoothing' with the help of an example. What is the difference between the two?
6. Describe the steps & state the formula of MS -Excel to compute 'NPV' given the following data:
 Initial outflow Rs 5000
 Cash inflow
 1st Year Rs. 1,000
 2nd Year..... Rs. 1,200
 3rd Year..... Rs. 1,400
 4th Year..... RS. 1,500
 5th Year..... Rs. 1,800
7. How Trend analysis can be projected with the help of a financial model?
8. If you want to generate values for a target output by changing multiple inputs and setting multiple constraints on the inputs, what function you should use in Excel.
9. Explain the Vertical & Horizontal Analysis of Financial Statement.
10. Explain computation of NPV using Ms-Excel given the following data:
 Discount Rate : 10%

Project A

Year	1	2	3	4
Costs	100,000	25000	25000	25000
Benefits	0	80,000	80,000	80,000

Year	1	2	3	4
Costs	100,000	25000	25000	25000
Benefits	0	80,000	80,000	80,000

Project B

Year	1	2	3	4
Costs	15,000	61,000	50,000	50,000
Benefits	10,000	60,000	65,000	75,000

11. You are a civil engineer and your company wants to pursue an earthworks project. Show in Ms Excel how you will compute NPV when you need to buy a backhoe for Rs. 2,00,000 and after operating costs, it will bring you Rs. 35000 per year for 10 years. After this, it will have 0 salvage value. Assume MARR = 12%.
12. What are the basic pre-requisites to build up a XNPV model?
13. What are the basic pre-requisites to solve Excel IRR?
14. Elaborate how NPV is calculated quarterly in Excel
15. "Excel's XNPV function provides more accurate results when comparing long-term investments with irregularly timed cash flows". Comment.

QUESTION BANK

RESEARCH METHODOLOGY

BCOM- 214

UNIT - I

I MULTIPLE CHOICE QUESTIONS:

1 Most qualitative research money goes into...

- A. Depths
- B. Group Discussions
- C. Delphi
- D. Ethnography

ANSWER B.

2 Which of these quantitative methods is favored in Europe?

- A. Telephone
- B. Postal
- C. Face to Face
- D. Online

ANSWER C.

3 What is data "which relates to a living individual who can be identified from the data, or from the data and other information in the possession of, or likely to come into the possession of, the data controller"?

- A. Impersonal data
- B. Personal data
- C. Behavioral data
- D. Something else

ANSWER B.

4 How many principles are contained in the UK Data Protection Act 1998?

- A. Eight
- B. Ten
- C. Twelve
- D. Fourteen

ANSWER A.

5 Which Job matches this description? "Responsible for specific parts of projects, may be part of a team. Will write questionnaires and analyze results. May prepare reports and presentations".

- A. Spec Writer
- B. Research Executive
- C. Personal Interviewer
- D. Moderator

ANSWER. B.

6. Which ONE of these is a technique useful in project planning?

A. SERT

B. SPERT

C. PERT

D. REPT

ANSWER C

7. Which ONE of these needs to be decided before considering whether to take a census or sample?

A. The method

B. The objectives

C. The reporting style

D. The Gantt chart

ANSWER B

8. Which ONE of these should be used as a starting point for any research project?

A. Primary data

B. Secondary data

C. Omnibus data

D. Continuous data

ANSWER B.

9. A systematic search for a supplier includes various steps. Which ONE of the following steps should come before the others?

A. Rejecting or accepting a proposal

B. Shortlisting of agencies

C. Creating a brief

D. Receiving proposals

ANSWER C.

10. Why might we have a qualitative stage at the end of a project?

A. To generate a sampling frame

B. To investigate issues found in the field

C. To help in questionnaire development

D. To fine-tune the objectives

ANSWER B.

11. Who produces the research brief?

A. An informant

B. A research agency

C. A client

D. A respondent

ANSWER C.

- 12 The brief does NOT contain:
A. background
B. objectives
C. reporting details
D. fees
ANSWER D.
- 13 The depth interview is the same as a:
A. Delphi interview
B. quantitative interview
C. focused interview
D. semiotic study
ANSWER C.
- 14 Which ONE of the following is generally considered to be a forecasting method?
A. Accompanied shopping
B. Delphi interview
C. Depth interview
D. Focus group
ANSWER B.
- 15 Semiotics refers to:
A. the analysis of signs
B. body language
C. a projective technique
D. syndicated
ANSWER. A.
- 16 Semiotic analysis is criticized for being:
A. objective
B. old-fashioned
C. subjective
D. too simple
ANSWER. C.
- 17 Which ONE of the following is least likely to be a client for social researchers?
A. Government departments
B. FMCG manufacturers
C. Pressure groups
D. Charities
ANSWER B.
- 18 The objectives for clients of social research are likely to concern:
A. making profit
B. increasing profit
C. decreasing profit

D. something other than profit
ANSWER D.

- 19 Social researchers' interview:
- A. individuals only
 - B. organizations only
 - C. individuals and organizations
 - D. neither individuals nor organizations
- ANSWER. C.

- 20 Which ONE of the following terms is used to describe the situation when respondents assess the prevailing feeling and, as a result, are reluctant to express opinions openly?
- A. Spiral of silence
 - B. Hawthorne effect
 - C. Telescoping
 - D. Sugging
- ANSWER A.

- 21 Which of the following quantitative research questions is superior?
- A. "What is the effect of participation in various extracurricular activities on academic performance?"
 - B. "What effect does playing high school football have on students' overall grade point average during the football season?"
- ANSWER B.

- 22 A statement of the quantitative research question should:
- A. Extend the statement of purpose by specifying exactly the question(s) the researcher will address
 - B. Help the research in selecting appropriate participants, research methods, measures, and materials
 - C. Specify the variables of interest
 - D. All of the above
- ANSWER D.

- 23 The research participants are described in detail in which section of the research plan?
- A. Introduction
 - B. Method
 - C. Data analysis
 - D. Discussion
- ANSWER. B.

- 24 Research hypotheses are _____.
- A. Formulated prior to a review of the literature
 - B. Statements of predicted relationships between variables
 - C. Stated such that they can be confirmed or refuted
 - D. b and c
- ANSWER. D.

- 25 Hypotheses in qualitative research studies usually _____.
A. Are very specific and stated prior to beginning the study
B. Are often generated as the data are collected, interpreted, and analyzed
C. Are never used
D. Are always stated after the research study has been completed
ANSWER. B.
- 26 Research design strategy encompasses all of the components below except _____.
A. data collection design
B. sampling design
C. instrument development
D. data analysis
- 27 We review the relevant literature to know:
A. What is already known about the topic
B. What concepts and theories have been applied to the topic
C. Who are the key contributors to the topic
D. All of the above
ANSWER D
- 28 Which of the following is not a data-collection method?
A. Research questions
B. Unstructured interviewing
C. Postal survey questionnaires
D. Participant observation
ANSWER A
- 29 Which of the following is a component of ethnographic research?
A. Being immersed in a social group or setting
B. Participant observation, interviews, and/or documentary analysis
C. A written account of an ethnographic study
D. All of the above
ANSWER D
- 30 Which of the following is not a type of qualitative interview?
A. Unstructured interview
B. Oral history interview
C. Structured interview
D. Focus group interview
ANSWER C

II SHORT ANSWER TYPE QUESTIONS:

- 1 Define business research.
- 2 Describe the task of business research.
- 3 Define the nature of social science research
- 4 What is research problem?
- 5 What is hypothesis?
- 6 What do you mean by quantitative research?
- 7 What do you mean by qualitative research?
- 8 Define Ex post facto research.
- 9 What do you mean by Action Research?
- 10 What do you mean by historical research?
- 11 What do you mean by experimental research?
- 12 Write a short note on determination of information needed
- 13 Differentiate between Descriptive and Exploratory research
- 14 Differentiate between Qualitative and Quantitative research
- 15 When is a problem suitable for research supposed to exist?
- 16 What is business research? Why should there be any question about the definition of research?
- 17 Describe the characteristics of the scientific method.
- 19 Write short note on objectives of research.
- 20 Distinguish between research methods and research methodology.
- 21 Define the term hypothesis. What are its characteristics? What is its importance in research?
- 22 How to formulate a research problem.
- 23 Describe nominal, ordinal interval and ratio scale.
- 24 Describe the steps in constructing hypotheses.
- 25 What is the importance of reviewing of literature?
- 26 List the various steps in undertaking a scientific research.
- 27 Distinguish between 'concepts' and constructs with examples.
- 28 Explain the characteristics of a good hypothesis. Explain why the research question is always kept as an alternative hypothesis instead of a null hypothesis.
- 29 Explain the various steps in hypothesis testing using an example.
- 30 Write short note on types of measurement scale.
- 31 How would you distinguish between a management decision problem and management research problem? Do all decision problems require research?
- 32 Write short note on Research Gap.
- 33 Define business research and describe its task.
- 34 List the conditions that help a researcher decide when research should or should not be conducted.
- 35 For each of the following situations, decide whether the research should be exploratory descriptive or casual. Elaborate briefly on the reasons for your choice.
 - a) Identify target market demographics for a shopping center.
 - b) Establishing the functional relationship between advertising and sales.
 - c) Investigate consumer reactions to the idea of new laundry detergent that prevents shrinkage in hot water.

- d) Estimate sales potential for a new lathe machine.
- 36 Distinguish between Experimental & Motivational research.
- 37. Elaborate various types of conclusive research.
- 38 Discuss the importance of research problem.
- 39 Differentiate between Continuous Scale and Categorical Scale Variables.
- 40 Distinguish between research Methods & Research Methodology.

III LONG ANSWER TYPE QUESTIONS:

- 1 What do you mean by research? Explain its significance in modern times.
- 2 What is social research? Mention the fields of social research. Enumerate the principal steps involved in social research.
- 3 Describe the various extraneous variables which if not controlled in an experiment may contaminate the effect of the independent variable.
- 4 Explain the objectives, research design and method of analysis of the topic selected by you for dissertation.
- 5 What is meant by research? Briefly describe the different steps involved in a research process. Distinguish between research methods and research methodology.
- 6 Define a hypothesis. What are the advantages of formulating it in a research study?
- 7 Describe the criteria of a good hypothesis.
- 8 What hypothesis must be tested in the following situation?
- 9 The maker of the beverage ‘Horlicks’ have introduced a glucose biscuit under the same brand name. Another established biscuit manufacturer is interested in finding out the market reaction to the new product and the implications to his own sales.
- 10 How are hypotheses formulated? Explain the sources and uses of hypotheses.
- 11 What is the feature and role of research hypothesis?
- 12 Describe fully the techniques of defining a research problem.
- 13 What is research problem? Define the main issues which should receive attention of the researcher in formulating the research problem. Give suitable examples to elucidate your points.
- 14 What is first step in conducting a business research project?
- 15 What is the relationship of research to science? Explain different methods of research relevant to business research.
- 16 Is it necessary for every research project to have a set of hypotheses? Why or why not?
- 17 What is meant by hypothesis? What are the different types of hypotheses? How do you verify whether a hypothesis is true or false?
- 18 What are differences between questions and hypotheses?
- 19 Describe a microcomputer software program that can be used to assist the researcher in defining the research problem.
- 20 What is the difference between marketing intelligence and marketing research? Can they be used together?
- 21 “Empirical research in India in particular creates so many problems for the researches”. State the problems that are usually faced by such researchers.
- 22 Briefly describe the different steps involved in a research process.
- 23 What is research problem? Define the main issues which should receive the attention of the researcher in formulating the research problem. Give suitable to elucidate your points.

- 24 What are the common types of errors encountered in defining a business research problem? What can be done to reduce the incidence of such errors?
- 25 State the research problems for each of the following management decision problems.
 - (a) Should a new product be introduced?
 - (b) Should an advertising campaign that has run for three years be changed?
 - (c) Should the in-store promotion for an existing product line be increased?
 - (d) What pricing strategy should be adopted for a new product?
- 26 What is meant by measurement? What measurement components can exist in any specific measurement?
- 27 What are nominal, ordinal, interval and ratio measurement? What statistics can be used with each type of measurement?
- 28 Discuss in detail various types of research.
- 29 Describe steps involved in research process
- 30 Discuss in detail various applications of business research.
- 31 Explain what is meant by Literature Review? Why is it considered as a first step in research and explain its use?
- 32 Explain different phases of research project.
- 33 “The manager is not equipped to arrive at a focused and precise research question till the carries out a thorough inventory check of the problem area”. Examine the above statement and justify your Answer with example.
- 34 Select a research problem enlist the variables in the problem and formulate a theoretical frame work to demonstrate the link between the variables under study.
- 35 Differentiate between Concept, Indicators and Variables? Explain the types of Variables and their usage in details.
- 36 Describe the type of research evidence that allows one to infer causality .
- 37 How may the formulation of an initial substantive theory help in the development of a research proposal?
- 38 What are the differences between research questions and hypotheses? What are the characteristics and functions of hypotheses? Illustrate.
- 39 Elaborate the techniques involved in defining Research Problem
- 40 Discuss the various steps involved in testing Hypothesis.

UNIT - II

I MULTIPLE CHOICE QUESTIONS:

- 1 Which ONE of these services is NOT a search engine?
 - A. Archie
 - B. Google
 - C. Dewey
 - D. Yahoo
 ANSWER. C.

- 2 The Freedom of Information Act 2000 concerns:
- A. data privacy
 - B. personal data
 - C. public authorities
 - D. something other than the options given
- ANSWER C.
- 3 Which ONE of these is the best description of secondary data?
- A. Ordinary data
 - B. Existing data
 - C. Omnibus data
 - D. Ordinal data
- ANSWER B.
- 4 Which ONE of these is a good example of tertiary data?
- A. An article
 - B. A book index
 - C. A complaint letter
 - D. A research report
- ANSWER. B.
- 5 Secondary data is LEAST helpful in:
- A. developing questionnaires
 - B. interpreting tables
 - C. formulating hypotheses
 - D. evaluating new products
- ANSWER. D.
- 6 Which ONE is the most damaging problem for the researcher with secondary data?
- A. It may not be accurate
 - B. It may be biased
 - C. It may not address the aims
 - D. It may only provide part of the answer
- ANSWER. C.
- 7 Which ONE of these types of secondary data sources is internal? (Consider them from the viewpoint of a computer games software seller.)
- A. Magazine reviews of games
 - B. Past sales to specialist stores
 - C. Competitor price lists on the web
 - D. Published market reports
- ANSWER. B.
- 8 Which ONE of these types of secondary data is external? (Consider them from the view point of a computer games software seller.)
- A. Magazine reviews of games

- B. Past sales to specialist stores
- C. Employee feedback
- D. Own production figures

ANSWER A.

- 9 Which ONE of these will best help us to assess the reliability of information found in desk research?
- A. The source
 - B. The search engine used
 - C. The price we pay
 - D. The time it takes to obtain

ANSWER. A.

- 10 Desk research plans should start with:

- A. Primary data
- B. External secondary data
- C. Tertiary data
- D. Internal secondary data

ANSWER C.

- 11 According to historical accounts, face-to-face methods have been used since the early years of civilization to collect population figures. Why were these records kept?

- A. For religious purposes
- B. For taxation purposes
- C. For scientific purposes
- D. For historical purposes

ANSWER B.

- 12 When did the telephone become an accepted tool for primary data collection in marketing research?

- A. 1930s
- B. 1950s
- C. 1970s
- D. 1990s

ANSWER C.

- 13 If someone uses research as part of a sales effort, this is said to be:

- A. Syndicating.
- B. Sugging
- C. Satisficing
- D. Surveying

ANSWER B.

- 14 Which ONE of these is NOT an intrinsic factor?

- A. The questionnaire style
- B. The interviewer's voice

- C. The interview situation
- D. The informant's memory

ANSWER D.

- 15 Acquiescence response bias is usually:
- A. Disagreement with little consideration.
 - B. Agreement with little consideration.
 - C. Over consideration.
 - D. Something other than the options offered.

ANSWER B.

- 16 A primary data collection method that involves tracking behaviour over a period of time is called:

- A. Browsing
- B. Observation
- C. Sampling
- D. Testing

ANSWER B

- 17 Mystery shopping is a form of:

- A. Questionnaire
- B. Observation
- C. Analysis
- D. Postal survey

ANSWER B.

- 18 Which ONE of these methods is the fastest way to collect data?

- A. Online
- B. Personal
- C. Phone
- D. Postal

ANSWER A.

- 19 Which ONE of these methods is the most expensive way to collect data per respondent?

- A. Online
- B. Personal
- C. Phone
- D. Postal

ANSWER. B.

- 20 Which ONE of these methods has the highest response rate?

- A. Online
- B. Personal
- C. Phone
- D. Postal

ANSWER B.

- 21 The difference between measures and indicators is that:
- A. Measures are unambiguous quantities, whereas indicators are devised from common sense understandings
 - B. Indicators have a more direct relationship to the underlying concept than measures
 - C. Measures are intuitively devised and then applied as if they were direct indicators of a concept
 - D. Indicators are unambiguous quantities, whereas measures are subjective and value-laden.

ANSWER A.

- 22 The split-half method is used as a test of:
- A. Stability
 - B. Internal reliability
 - C. Inter-observer consistency
 - D. External validity

ANSWER B.

- 23 Which of the following is not a form of measurement validity?
- A. Concurrent validity
 - B. Face validity
 - C. Conductive validity
 - D. Convergent validity

ANSWER C.

- 24 Quantitative social researchers rarely claim to have established causality because:
- A. They are more concerned with publishing the results of their reliability tests
 - B. They do not believe that this is an appropriate goal to be striving for
 - C. They keep forgetting which of the variables they have manipulated
 - D. They tend to use cross-sectional designs, which produce only correlations

ANSWER D.

- 25 One of the preoccupations of quantitative researchers is with generalization, which is a sign of:
- A. External validity
 - B. Internal reliability
 - C. External reliability
 - D. Internal validity

ANSWER A.

- 26 Which of the following is the first step in starting the research process?
- A. Searching sources of information to locate problem.
 - B. Survey of related literature
 - C. Identification of problem
 - D. Searching for solutions to the problem

ANSWER: C

- 27 A common test in research demands much priority on
 A. Reliability
 B. Useability
 C. Objectivity
 D. All of the above
 ANSWER: D
- 28 Which of the following variables cannot be expressed in quantitative terms?
 A. Socio-economic Status
 B. Marital Status
 C. Numerical Aptitude
 D. Professional Attitude
 ANSWER: C
- 29 In the process of conducting research ‘Formulation of Hypothesis’ is followed by
 A. Statement of Objectives
 B. Analysis of Data
 C. Selection of Research Tools
 D. Collection of Data
 ANSWER: C
- 30 A research paper is a brief report of research work based on
 A. Primary Data only
 B. Secondary Data only
 C. Both Primary and Secondary Data
 D. None of the above
 ANSWER: C

II SHORT ANSWER TYPE QUESTIONS:

- 1 What do you mean by primary data?
- 2 What is the difference between questionnaire and schedule?
- 3 What do you mean by scaling?
- 4 What is depth interview
- 5 Important aspect of a questionnaire
- 6 Explain Pantry and store audits
- 7 Explain Thematic Apperception Test
- 8 Explain Holtzman Inkblot Test
- 9 Briefly explain the concept of reliability and validity.
- 10 What do you mean by participant observation?
- 11 What is research design?
- 12 Distinguish between Descriptive and causal studies
- 13 Distinguish between exploratory studies and formal studies
- 14 Distinguish between experimental and ex post facto research designs.
- 15 What is data mining?

- 16 Describe various of focus group techniques
- 17 Discuss various types of qualitative research methods.
- 18 Discuss various types of research designs
- 19 Differentiate internal validity and external validity.
- 20 Discuss face and content validity
- 21 Discuss concurrent and predictive validity.
- 22 Write short note on construct validity.
- 23 Describe external reliability of research instrument.
- 24 Describe internal reliability of research instrument.
- 25 List the various necessary conditions that are required to be fulfilled in order to study any cause and effect relationship.
- 26 A likert scale is considered as an Uni-dimensional scale. How can we infer that a set of statements that measures a single construct in a Likert scale is Uni-dimensional?
- 27 Explain the different ways which measures the internal consistency of a scale
- 28 Explain how to evaluate the validity of an instrument?
- 29 What is measurement error and discuss various types of measurement accuracy and the methods to measure them.
- 30 Define attitude. Briefly explain three components of attitude.
- 31 Differentiate between Ordinal and Nominal scale.
- 32 You have decided to undertake a project and have defined the main research question as ‘What are the opinions of consumers to a 10 per cent reduction in weight, with the price remaining the same, of “Snackers” chocolate bars?’ Write a hypothesis that you could test in your project.
- 33 Why may it be argued that the concept of the manager is socially constructed rather than ‘real’?
- 35 Write Short note on:
 - a) Focus Group Interviewing
 - b) Ethical Issues in business Research
 - c) Validity and Reliability of Research instruments
- 36 Discuss various scales of attitude measurement.
- 37 “Research design is the blue print of research”. Explain.
- 38 Discuss various sources of secondary data collection.
- 39 Differentiate between Questionnaire & scheduling.
- 40 Discuss various types of cross sectional research design.

III LONG ANSWER TYPE QUESTIONS:

- 1 How does formulating a research design differ from developing an approach to a problem?
- 2 What are the potential sources of error can affect a research design?
- 3 Welcome Inc. is a chain of fast-food restaurants located in major metropolitan areas in the South. Sales have been growing very slowly for the last two years. Management has decided to add some new items to the menu, but first they want to know more about their customers and their preferences.
 - (a) List two hypotheses
 - (b) What kind of research design is appropriate? Why
- 4 What are the common requirements for qualitative research methods in general?

- 5 Think of and list down some applications where qualitative methods are better than quantitative methods.
- 6 What do you mean by a questionnaire? How a questionnaire is different from schedule? 7 Enumerate the different methods of collecting data. Which one is the most suitable for conducting enquiry regarding family welfare programme in India? Explain its merits and demerits.
- 8 Describe some of the major projective techniques and evaluate their significance as tools of scientific social research.
- 9 What are the differences between primary and secondary data? Why is it important to obtain secondary data before primary data?
- 10 Distinguish between an experiment and survey. Explain fully the survey method of research.
- 11 What are the guiding considerations in the construction of questionnaire? Explain
- 12 What are structured, pictorial and unstructured questionnaire? Explain with the help of a relevant example.
- 13 Discuss various types Study design.
- 14 Describe various types of attitudinal scales
- 15 What is meant by the reliability and validity of a measurement? Discuss the various techniques available to assess each.
- 16 Describe the advantages and limitations of the following scales:
 - (a) Summated rating scale
 - (b) Equal appearing interval scale
 - (c) Cumulative Scale
- 17 Develop a Likert's scale for measuring the opinion of students in Delhi regarding the issue of 33% reservation for women in the parliament. Give the advantages of using this scale.
- 18 Briefly describe the following attitude measurement models
 - (a)The Guttman Scale
 - (b) The Semantic Differential Scale
 - (c) Thurstone's equal-appearing interval scale
- 19 Why is the focus group the most popular qualitative research technique? Why is the focus group moderator so important in obtaining quality results?
- 20 Write a essay on the credibility and usefulness of online resources for research.
- 21 Describe some of the important research designs used in experimental hypothesis-testing research study.
- 22 What is research design? Discuss the basis of stratification to be employed in sampling public opinion on inflation.
- 23 "Research design in exploratory studies must be flexible but in descriptive studies, it must minimize bias and maximize reliability." Discuss.
- 24 Explain the meaning and significance of research design.
- 25 How does case study method differ from the survey method? Analyze the merits and demerits limitations of case study method in sociological research.
- 26 Examine the merits and limitations of the observation methods in collecting material. Illustrate your Answer with suitable example.
- 27 What are the guiding considerations of questionnaire? Explain.
- 28 What is the meaning of measurement in research? What difference does it make whether we measure in terms of a nominal, ordinal, interval or ratio scale> Explain giving examples.

- 29 “Scale describes the procedures by which numbers are assigned to various degrees of opinion, attitude and other concepts.” Discuss. Also point out the bases for scale classification.
- 30 Write short note on :
 (a) Semantic differential scale
 (b) Likert –type scale
 (c) Arbitrary scales
- 31 Discuss with the help of examples the four key levels of measurements. What statistical techniques are permissible on data from each type of scale?
- 32 Describe each of the following:
 (a) Test- retest reliability
 (b) Split half reliability.
 (c) Cronbach alpha
 (d) Content validity
 (e) Predictive validity.
- 33 Differentiate between Likert, Thurstone and Guttman Scale with suitable examples?
- 34 Differentiate between experimental, non-experimental and quasi experimental study designs with suitable examples?
- 35 You wish to study the reasons why car owners join manufacturer-sponsored owners’ clubs. Your chosen research design is to have unstructured discussions with some members of these owners’ clubs. You are asked by small group of marketing managers to explain why your chosen research design is as valid as a questionnaire-based survey. What would be your Answer?
- 36 Briefly explain the primary scales of measurement. Illustrate with suitable examples specifying the permissible statistics for each of the scale.
- 37 Distinguish between primary and secondary information. Discuss the importance and limitations of each of them. Illustrate with examples.
- 38 What do you understand by the validity of research instruments? What is its relevance? How is it measured?
- 39 Enumerate the different methods of collecting data giving one example each.
- 40 What do you understand by experimental research design and ex post facto research design? Under which situation they are appropriate.

UNIT - III

I MULTIPLE CHOICE QUESTIONS:

- 1 Interviewing all members of a given population is called:
 A. A Sample
 B. A Gallup poll
 C. A census
 D. A Nielsen audit
 ANSWER C.

- 2 In the UK, which ONE of these sampling frames became popular for UK domestic populations after 1990?
- A. The Electoral Register
 - B. Yellow Pages directories
 - C. Postcode address file (PAF)
 - D. Kompass directories
- ANSWER C.
- 3 Sampling means following a sequence of stages. Which ONE of the following stages should come before the others?
- A. Proceed with the fieldwork
 - B. Find suitable source for the population members
 - C. Define the people of interest
 - D. Examine the objective of the study
- ANSWER D.
- 4 Which ONE of these sampling methods is a probability method?
- A. Quota
 - B. Judgement
 - C. Convenience
 - D. Simple random
- ANSWER D.
- 5 For sampling, which ONE of the following should be up-to-date, complete and affordable?
- A. A census
 - B. A CAPI machine
 - C. A sampling frame
 - D. A respondent
- ANSWER C.
- 6 Which ONE of these sample sources will be the most incomplete for a sample of nationally representative households?
- A. The Electoral Register
 - B. The postcode address file (PAF)
 - C. Telephone directories
 - D. A customer database
- ANSWER D.
- 7 Which ONE of the following is the benefit of using simple random sampling?
- A. We can calculate the accuracy of the results
 - B. The results are always representative
 - C. Interviewers can choose respondents freely
 - D. Informants can refuse to participate
- ANSWER A.

- 8 Which ONE of the following is the main problem with using non-probability sampling techniques?
- A. The expense
 - B. The results are never representative
 - C. Human judgment error
 - D. Informants can refuse to participate
- ANSWER C.
- 9 Which ONE of the following is the best - but an often unused - way to decide on sample size?
- A. By using industry standards
 - B. By calculation
 - C. By building blocks
 - D. By budget available
- ANSWER B.
- 10 Which ONE of the following methods is generally used in qualitative sampling?
- A. Random digit dialling
 - B. Quota
 - C. Stratified random
 - D. Simple random
- ANSWER B.
- 11 When new information inhibits recall of previously memorised information this is known as...
- A. Proactive inhibition
 - B. Retroactive inhibition
 - C. Sugging
 - D. Telescoping
- ANSWER B.
- 12 One thing that should definitely not affect a respondent's ability to ANSWER questions is...
- A. Retroactive inhibition
 - B. Physical disability
 - C. Telescoping
 - D. Repression
- ANSWER B.
- 13 Why is stimulus material used at interviews?
- A. As an incentive to participate
 - B. To assist the interview process
 - C. As a gift
 - D. Something else
- ANSWER B.

- 14 Which of these is NOT an example of stimulus material?
A. Advertising jingles
B. Lists
C. Payment
D. Show cards
ANSWER C.
- 15 Which of these approaches can make the best use of stimulus material?
A. Web questionnaire
B. Telephone interview
C. Postal Questionnaire
D. Focus Group
ANSWER D.
- 16 Projective techniques are an alternative to?
A. Computers
B. Questions
C. CATI
D. Questionnaires
ANSWER B.
- 17 A respondent is asked to describe her car as if it were an animal. Of what is this an example?
A. A filter question
B. A semantic differential scale
C. A closed question
D. A Projective test using Analogy
ANSWER D.
- 18 "Do you think we should recycle more household waste because there is a serious risk of destroying planet earth by our overuse of resources and abuse of the environment?" is an example of...
A. A generalization
B. A leading question
C. Position bias
D. An open-ended question
ANSWER B.
- 19 What is an advantage of using open-ended questions?
A. Potential is high for interviewer bias
B. They can also be used in panel research
C. People can express themselves in their own way
D. Expensive analysis uses budgets too quickly
ANSWER C.

20. What is typically used to plan a questionnaire?
- A. Gantt chart
 - B. Flow chart
 - C. Pie chart
 - D. Polar diagram
- ANSWER D.
21. Being able to talk to the people you need in a situation that is best suited to providing results. What is this?
- A. Informed consent.
 - B. Lack of consent.
 - C. Implied consent.
 - D. Something else.
- ANSWER B.
22. The participant consent given freely and based on full information. What is this?
- A. Informed consent.
 - B. Lack of consent.
 - C. Implied consent.
 - D. Something else.
- ANSWER A.
23. Telephone contact will be improved if:
- A. you link to your privacy policy.
 - B. you offer to call back.
 - C. you give a link to a web page with more explanation of the project.
 - D. you enclose a SAE.
- ANSWER B.
24. Email contact will be improved if:
- A. you give a link to a web page with more explanation of the project.
 - B. you enclose a SAE.
 - C. you offer to call back.
 - D. you use coloured paper.
- ANSWER A.
25. Postal contact will be improved if:
- A. you give a link to a web page with more explanation of the project.
 - B. you link to your privacy policy.
 - C. you enclose a SAE.
 - D. you charge the respondent money.
- ANSWER C.

- 26 Which of the following is not a “Graphic representation” ?
A. Pie Chart
B. Bar Chart
C. Table
D. Histogram
ANSWER: C
- 27 A research paper is a brief report of research work based on
A. Primary Data only
B. Secondary Data only
C. Both Primary and Secondary Data
D. None of the above
ANSWER: C
- 28 Which of the following is not a type of purposive sampling?
A. Probability sampling
B. Deviant case sampling
C. Theoretical sampling
D. Snowball sampling
ANSWER A
- 29 Cross cultural studies are an example of:
A. Case study design
B. Comparative design
C. Experimental design
D. Longitudinal design
ANSWER: B
- 30 What is the first stage of a systematic review?
A. Assess the relevance of each study to the research question(s)
B. Define the purpose and scope of the review
C. Appraise the quality of studies from the previous step
D. Survey all of the literature contained within a single library
ANSWER B

II SHORT ANSWER TYPE QUESTIONS:

- 1 What is sample?
- 2 What do you mean by sampling frame?
- 3 What is cluster sampling?
- 4 What is area sampling?
- 5 What do you mean by multi stage sampling?
- 6 What is stratified sampling?
- 7 What do you mean by universe?
- 8 What do you mean by snowball sampling?
- 9 What do you mean by sequential sampling?

- 10 What do you mean by systematic random sampling?
- 11 What do you mean by reporting errors?
- 12 What do you mean by processing errors?
- 13 What do you mean by inverse sampling?
- 14 What is double sampling?
- 15 What do you mean by proportionate random sampling?
- 16 What do you mean disproportionate random sampling?
- 17 Discuss the sources of data collection.
- 18 Discuss the importance of interview techniques in data collection.
- 19 Discuss the importance of observation and survey methods in data collection.
- 20 Define sampling. Discuss the theory and types of sampling.
- 22 What are different types of research proposals? Define them
- 24 What, if any, are the differences between solicited and unsolicited proposals?
- 25 Define various steps to design a research proposal.
- 26 What is significance of sample selection in research?
- 27 Differentiate between stratified random sampling and systematic sampling.
- 28 What is the significance of standard error in sampling analysis?
- 29 Write short note on sample size determination.
- 30 Identify a suitable sampling frame for each of the following research questions.
- How do company directors of manufacturing firms of over 500 employees think a specified piece of legislation will affect their companies?
 - Which factors are important in accountants' decisions regarding working in mainland Europe?
 - How do employees at Cheltenham Gardens Ltd think the proposed introduction of compulsory Saturday working will affect their working lives?
- 31 You need to undertake a face-to-face interview survey of managing directors of small to medium-sized organizations. From the data you collect you need to be able to generalize about the attitude of such managing directors to recent changes in government policy towards these firms. Your generalizations need to be accurate to within plus or minus 5 per cent. Unfortunately, you have limited resources to pay for interviewers, travelling and other associated costs.
- How many managing directors will you need to interview?
 - You have been given the choice between cluster and multi-stage sampling. Which technique would you choose for this research? You should give reasons for your choice.
- 32 What should be the size of sample if a simple random sample from a population of 4000 items is to be drawn to estimate the percent defective within 2% of the true value with 95.5% probability? What would be the size of the sample if the population is assumed to be infinite in the given case? (Answer 197)
- 33 Distinguish between the following:
- Statistic and parameter
 - Confidence level and significance level
 - Point and interval estimate.
- 34 Explain the meaning of the following sampling fundamentals:
- Sampling frame
 - Sampling error

- 35 State the reasons why sampling is used in the context of research studies.
- 36 Discuss the concept of sampling.
- 37 What is sample frame.
- 38 Differentiate between different sampling techniques
- 39 What is sampling process
- 40 How is systematic sampling different from stratified random sampling?

III LONG ANSWER TYPE QUESTIONS:

- 1 What is the difference between a sample and a census?
- 2 Under what conditions would a sample be preferable to a census? A census preferable to a sample?
- 3 What is a sampling unit? How is it different from the population element? What qualitative factors should be considered in determining the sample size?
- 4 What do you mean by 'Sample Design'? What points should be taken into consideration by a researcher in developing a sample design for this research project.
- 5 Differentiate the probability and non-probability sampling. Explain different probability and non-probability sampling techniques.
- 6 What is the difference between degree of confidence and degree of precision? Suppose the population variation is known, how does one then determine the sample size necessary to estimate a population mean with some desired degree of precision and confidence?
- 7 Distinguish between sampling error and non-sampling error. Why the distinction is important?
- 8 Discuss the various steps involved in the sampling process.
- 9 Why probability sampling is generally preferred in comparison to non-probability sampling? Explain the procedure of selecting a simple random sample.
- 10 What is the least expensive and least time consuming of all sampling techniques? What are the major limitations of this technique?
- 11 What is the relationship between quota sampling and judgmental sampling?
- 12 Describe the stratified sampling. What are the criteria for the selection of stratification variables?
- 13 What are the differences between proportionate and disproportionate stratified sampling?
- 14 Describe cluster sampling procedure. What is the key distinction between cluster sampling and stratified sampling?
- 15 What factors should be considered in choosing between probability and non-probability sampling?
- 16 What strategies are available to adjust for nonresponse?
- 17 Define the appropriate target population and sampling frame in each of the following situations:
 - (a) The manufacturer of a new cereal brand wants to conduct in-home product usage tests in Chicago
 - (b) A national chain store wants to determine the shopping behavior of customers who have its store charge card.
- 18 Visit the Survey Site Website ([www. Surveysite.com](http://www.Surveysite.com)). Examine the internet surveys being conducted. Write a report about the sampling plans being used.

- 19 What type of a sample would you recommend for the following projects:
- (a) A study of purchasing habits of buyers of carpets;
 - (b) A study of brand loyalty in the cosmetic market;
 - (c) An estimate of distribution by income-class of household expenditure for recreational goods and services?
- Give reasons for your choice in each case.
- 20 What do you understand by random sampling? How a random sample is selected? Is a random sampling always better than other forms of sampling in the context of socio-economic survey?
- 21 Identify the relevant population for the following foci and suggest the appropriate sampling design to investigate the issue, explaining why they are appropriate. Whether necessary, identify the population frame as well.
- (a) A gun manufacturing firm would like to know the types of guns possessed by various age groups in Washington, D.C
 - (b) A hospital administrator wants to find out if the single parents working in the hospital have a higher rate of absenteeism than parents who are not single.
 - (c) A researcher would like to assess the extent of pilferage in the materials storage warehouses of manufacturing firms on the east coast.
 - (d) The director of human resources wants to investigate the relationship between drug abuse and dysfunctional behavior of blue collar workers in a particular plant.
- 22 Explain what precision and confidence are and how they influence by sample size.
- 23 Use of a sample of 5000 is not necessarily better than one of 500. How would you react to this statement?
- 24 Overgeneralizations give rise to much confusion and other problems for researchers who try to replicate the findings. Explain what is meant by this.
- 25 Double sampling is probably the least used of all sampling designs in organizational research. Do you agree? Provide reasons for your Answer.
- 26 A magazine article suggested that “consumers 35 to 44 will soon will be the nation’s biggest spenders, so advertisers must learn how to appeal to this over-the-thrill crowd.” If this suggestion appeals to an apparel manufacturer, what should the sampling design be to assess the tastes of this group?
- 27 What kind of biases do you think could be minimized or avoided during the data analysis stage of research?
- 28 When we collect data on the effects of treatment in experimental designs, which statistical test would be most appropriate to test the treatment effects?
- 30 Define data analysis. Explain the process and importance of tabulation, codification and interpretation of data.
- 34 Processing of data implies editing, coding, classification and tabulation. Describe these four operations pointing out the significance of each in context of research study.
- 35 Discuss any four sampling techniques with their relative merits and drawbacks.
- 36 Describe different types of sampling techniques and differentiate between the Probability and Non-probability sampling techniques
- 37 Briefly explain the process of sample design for the business research. Illustrate with the help of a suitable example.
- 38 What is the significance of sample selection in research? Explain the factors which should be considered while selecting a sample for research?

- 39 Explain the meaning and significance of the concept of standard error in sampling analysis.
40 Describe briefly the commonly used sampling distributions.

UNIT - IV

I MULTIPLE CHOICE QUESTIONS:

- 1 Which ONE of the following indicates how 'accurate' results from sample surveys may be?
A. Correlation tests
B. Significance tests
C. Regression tests
D. In-home tests
ANSWER B.
- 2 With whom are the terms 'hole counts, top-line results, punching and dirty data' associated?
A. Galton (1822-1911)
B. Pearson (1857-1936)
C. Hollerith (1860-1929)
D. Booth (1840-1916)
ANSWER C.
- 3 The researcher limits any comments to the facts discovered through the study.' To which ONE of the following does this refer?
A. Interpretation
B. Analysis
C. Coding
D. Clustering
ANSWER B.
- 4 Which ONE of these techniques is most likely to be used in qualitative analysis?
A. ANOVA
B. Discriminant analysis
C. CHAID
D. NVIVO
ANSWER D.
- 5 Which ONE of these types of information is NOT usually made available in transcripts?
A. Words as spoken
B. Emotions
C. Questions asked
D. ANSWERs given
ANSWER B.
- 6 Which ONE of these techniques is most likely to be used in quantitative analysis?
A. Multivariate analysis
B. Sound-tape recordings

- C. Transcripts
- D. Videos

ANSWER A.

- 7 Demographics are also known as:
- A. Classifiers.
 - B. Social class.
 - C. Socio-economic groupings.
 - D. Something other than the options given.

ANSWER A.

- 8 Consider the difference between standard demographics and non-standard demographics. Standard demographics are:
- A. Quantitative, while non-standard are qualitative.
 - B. Secondary data, while non-standard are primary data.
 - C. Used in the UK, while non-standard are used in the USA.
 - D. Well established, while non-standard are specific to the study.

ANSWER D.

- 9 Which ONE of the following is NOT likely to account for variations in quantitative results?
- A. Sampling error
 - B. Transcript error
 - C. Social desirability bias
 - D. Acquiescence response bias

ANSWER B.

- 10 The chi-square test is:
- A. A mean
 - B. A multi-question test.
 - C. A statistical mistake.
 - D. A statistica

ANSWER D.

- 11 When did members of the Royal Statistical Society devise bar charts, scatter plots, line plots, pie charts and coxcombs?
- A. 1600s
 - B. 1700s
 - C. 1800s
 - D. 1900s

ANSWER C.

- 12 'Reports can be available to multiple users simultaneously and instantly.' To which ONE of the following channels does this best apply?
- A. Motorbike couriers
 - B. The Internet
 - C. Fax machines

D. Postal services
ANSWER B.

- 13 The most undesirable outcome of poor reporting is:
- A. A decision to go ahead
 - B. A decision not to proceed
 - C. Indecision
 - D. Good decisions
- ANSWER C.

- 14 Which section of a report is intended to be self-contained and to highlight the key aspects of the entire project?
- A. Appendices
 - B. Executive summary
 - C. Method
 - D. Research costs
- ANSWER B.

- 15 In a marketplace with twenty competitors, what is the best number of segments to use in a pie chart showing market share?
- A. Five
 - B. Ten
 - C. Fifteen
 - D. Twenty
- ANSWER A.

- 16 For market research, which ONE of the following should appear alongside each visual display used?
- A. The client turnover
 - B. The main respondent name
 - C. The research agency name
 - D. The sample size
- ANSWER D.

- 17 Eye contact with an audience can be kept if:
- A. You read from a page.
 - B. You face the screen.
 - C. You face the audience.
 - D. You have a structure.
- ANSWER C.

- 18 There are different levels at which a report can be written. One level is that at which the researcher is almost acting as a decision-making partner to combine results with other facts and intuition. Which ONE of the following describes that level?
- A. Reportage
 - B. Interpretation

- C. Speculating
 - D. Summarising
- ANSWER C.

19 The following table on age profiles was extracted from a report. What is wrong with it?

Age	%
25 or under	6
26-36	20
36-46	29
46-56	8
56+	17

- A. No pie chart
 - B. Ranges not mutually exclusive
 - C. Percentages do not add up
 - D. Something other than the options given
- ANSWER B.

20 Which ONE of the following is the biggest disadvantage of PowerPoint?

- A. High cost
- B. Images overused
- C. Slow
- D. Difficult to use

ANSWER B.

21. Testing the probability of a relationship between variables occurring by chance alone if there really was no difference in the population from which that sample was drawn is known as_____

- A. Correlation coefficients.
- B. Multiple regression analysis.
- C. Chi-squared tests.
- D. Significance testing.

ANSWER D.

22. ANOVA is_____

- A. A government body which collects social statistics.
- B. The name of a statistical software package.
- C. A one-way analysis of variance.
- D. A two-way analysis of variance.

ANSWER C.

23. A correlation coefficient enables you to_____

- A. Quantify the strength of the linear relationship between two ranked or quantifiable variables.
- B. Establish whether the data is telling you what you think it should tell you.
- C. Measure the difference between two variables.

D. Assess whether two variables measure the same phenomenon.
ANSWER A.

24. The coefficient of determination (sometimes known as the regression coefficient) enables you to _____
- A. Measure the difference between two variables.
 - B. Establish whether the data is telling you what you think it should tell you.
 - C. Assess the strength of relationship between a quantifiable dependent variable and one or more quantifiable independent variables.
 - D. Assess whether two variables measure the same phenomenon.
- ANSWER C.

25. _____ is a type of graph
- A. Pie.
 - B. Scatter.
 - C. Box.
 - D. Bar.
- ANSWER D.

26. Which of the following is not a disadvantage of using secondary analysis?
- A. The researcher's lack of familiarity with the data
 - B. It is a relatively expensive and time-consuming process
 - C. Hierarchical datasets can be very confusing
 - D. The researcher has no control over the quality of the data
- ANSWER B

27. When a citation includes more than ____ authors, only the surname of the first author is cited followed by et al.
- A. 3
 - B. 4
 - C. 5
 - D. 6
- ANSWER A

28. Editorial style specifies that _____ should be used infrequently or sparingly.
- A. Italics
 - B. Abbreviations
 - C. Headings
 - D. Both a and b
- ANSWER D

29. Which of the following is not one of the seven major parts to the research report?
- A. Results
 - B. Abstract
 - C. Method
 - D. Footnotes
- ANSWER D

30 The abstract should be about how many words?

- A. 50
- B. 75
- C. 120
- D. 300

ANSWER C

II SHORT ANSWER TYPE QUESTIONS:

- 1 What is probing?
- 2 What is pre-coding?
- 3 What do you mean by parametric technique of analysis?
- 4 What do you mean by non-parametric techniques of analysis?
- 5 What do you mean by Yates' correction?
- 6 What is multi-dimensional scaling?
- 7 What is multicollinearity?
- 8 What is Factor Analysis?
- 9 What is Discriminant Analysis?
- 10 What is Conjoint Analysis?
- 11 What do you mean by cluster analysis?
- 12 How t-test is different from ANOVA?
- 13 What would you cover in introduction of Research Report
- 14 What are the major differences between oral and written report
- 15 Write brief notes on : Technique of writing a Research Report
- 16 What is MANOVA?
- 17 What is standard error of estimate?
- 18 What is meant by prediction accuracy?
- 19 What do you mean by eigen values in factor analysis?
- 20 What is orthogonal rotation
- 21 What is meant by spatial map?
- 22 What is Kolmogrove-Smirnov test
- 23 What is run test?
- 24 What do you mean by centroid?
- 25 What is dandogram?
- 26 Define Type I and Type II errors in relation to hypothesis.
- 27 Explain confidence interval and level of significance.
- 28 Write Short note on two tailed and one tailed test.
- 29 Write Short note on coefficient of determination.
- 30 Differentiate between parametric and non-parametric tests.
- 31 Briefly describe when you would use regression analysis and correlation analysis, using examples to illustrate your Answer.
- 32 What is factor analysis? When is this technique suitable to apply?
- 33 Write short notes on any two of the following:
 - a) Writing a Research Report
 - b) Conjoint Analysis

- 34 Write basic assumption of factor analysis.
- 35 Write short note on the following
 - a) Discriminant analysis
 - b) Multi collinearity
- 36 What is a hypothesis? What characteristics it must possess in order to be a good hypothesis research?
- 37 What do you mean by the power of a hypothesis test? How can it be measures?
- 38 What is Chi-square test? Explain it significance in statistical analysis.
- 39 Differentiate between correlation & regression analysis.
- 40 Write a short note on ANOVA.

III LONG ANSWER TYPE QUESTIONS:

- 1 How can respondent selection problems be controlled?
- 2 What is transcription? What are the various types of cards used for this purpose?
- 3 What is multi-variate analysis? Give examples of any four areas in which this technique can be applied. Name any three important multi-variate techniques used in decision-making and state
- 4 Explain the procedure of testing hypothesis requires a researcher to adopt several steps. Describe in brief all such steps.
- 5 Briefly describe the important parametric tests used in context of testing hypothesis. How such tests differ from non-parametric tests? Explain
- 6 What is the purpose of a report? Briefly describe the structure of a research report.
- 7 Why tabulation is considered essential in a research; study? Give the features of a good table.
- 8 State the major and sub headings of a research report in quantitative research scheme.
- 9 How factor analysis is different from multiple regression and discriminant analysis?
- 10 What is Chi-square test? Explain its significance and statistical procedure.
- 11 What do you mean by the additive property of the technique of the analysis of variance? Explain how this technique is superior in comparison to sampling.
- 12 Give your understanding of non-parametric or distribution free methods explaining their important characteristics.
- 13 What do you mean by multivariate techniques? Explain their significance in context of research studies.
- 14 Write a brief essay on Factor Analysis particularly pointing out its merits and demerits.
- 15 What is the significance of using multiple discriminant analysis? Explain in brief the technical details involved in such a technique.
- 16 Explain the procedure of computing factor analysis in detail.
- 17 What is conjoint analysis? Explain the procedure of using conjoint analysis and also mention its application areas.
- 18 What are some of the uses of cluster analysis in social sciences research? What guidelines are available for deciding on the number of clusters?
- 19 What hypothesis is examined by Barlett's test of sphericity? For what purpose is this test used?
- 20 What is the major difference between principal component analysis and common factor analysis?

- 21 Discuss the similarity and differences between cluster analysis and discriminant analysis.
- 22 Briefly define the following terms: dendrogram, icicle plot, agglomeration schedule, and cluster membership.
- 23 Identify two marketing research problems where MDS could be applied. Explain how you would apply MDS in these situations.
- 24 Describe the direct and derived approaches to obtaining MDS input data.
- 25 Describe a commonly used format for writing marketing research report.
- 26 Why is the limitations and caveats section included in the report?
- 27 The following passage is taken from a marketing research report prepared for a group of printers and lithographers without much formal education who run a small family owned business:
 To measure the image of the printing industry, two different scaling techniques were employed. The first was a series of semantic differential scales. The second consisted of a set of Likert scales. The use of two different techniques for measurement could be justified based on the need to assess the convergent validity of the findings. Data obtained using both these techniques were treated as interval scaled. Pearson product moment correlations were computed between the sets of ratings. The resulting correlations were high, indicating a high level of convergent validity.
 Rewrite this paragraph so that it is suitable for inclusion in the report.
- 28 Explain the various steps involved in the test of hypothesis exercise.
- 29 Explain the following concepts:
 a) Null and alternative hypothesis.
 b) One and two tailed test.
 c) Power of test.
 d) Descriptive and relational hypothesis
- 30 Distinguish between parametric and non parametric tests. Describe the general procedure for conducting t-test?
- 31 What steps are involved in writing a research report? Explain the relevance of each?
- 32 Why do we describe qualitative analysis as an ‘interactive process’? What types of data will you need to retain and file while you are undertaking qualitative research?
- 33 Processing of data involves editing, coding, classifying and tabulating. Explain each of these steps by taking an appropriate research example.
- 34 What is the basic purpose of factor analysis?
- 35 What should be ideal structure of a research report? What are the elements of the structure defined by you?
- 36 Explain the meaning of analysis of variance. Describe briefly the technique of analysis of variance for one way classification.
- 37 Explain non-parametric or distribution free methods explain their important characteristics.
- 38 Elaborate various statistical test under parametric & non-parametric test.
- 39 What is the significance of using multiple discriminant analysis? Explain in brief the technical details involved in such a technique.
- 40 What hypothesis is examined by Barlett’s test of sphericity? For what purpose is this test used?

