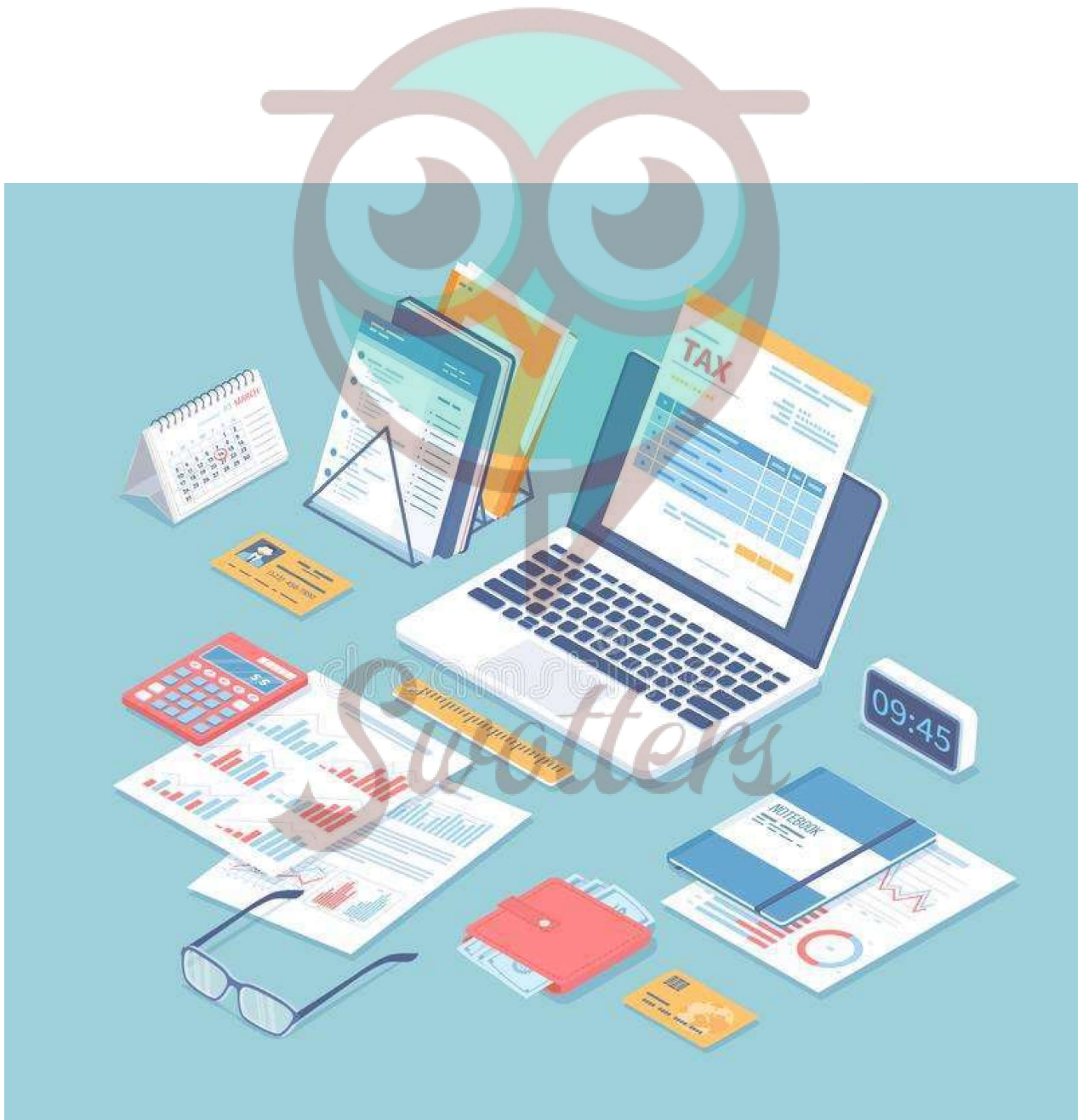


ACCOUNTANCY



Important Questions

Multiple Choice questions-

Question 1. Preliminary expense are required to be written off within _____ from the date of incurring.

- (a) one year
- (b) five years
- (c) same year
- (d) three years

Question 2. In the notes to accounts, share capital in which company has not called the entire face value of shares is shown under the notes to accounts.

- (a) Subscribed and fully paid up capital
- (b) Subscribed but not fully paid up capital
- (c) Reserve Capital
- (d) None of these

Question 3. The debentures to be redeemed within 12 months from the date of balance sheet is shown under

- (a) short term borrowings
- (b) long term borrowings
- (c) other current liabilities
- (d) long term liabilities

Question 4. Which of the following item will not appear under short term provisions

- (a) Provision for tax
- (b) Proposed Dividend
- (c) Provision for retirement benefits
- (d) Provision for doubtful debts

Question 5. Capital Reserve will be shown under

- (a) current liabilities
- (b) share capital
- (c) reserves and surplus
- (d) deferred tax liabilities

Question 6. Dividend is paid on

- (a) authorised capital
- (b) issued capital
- (c) called up capital
- (d) paid up capital

Question 7. Which of the following is not required to be prepared under companies act

- (a) Statement of Profit and Loss
- (b) Balanc Sheet

(c) Cash Flow Statement

(d) Funds Flow Statement

Question 8. Goodwill appears in a company's balance sheet under

(a) Unamortised assets

(b) Non-current investments

(c) Intangible assets

(d) Tangible assets

Question 9. Which of the following is not required to be prepared under companies act

(a) Statement of Profit and Loss

(b) Balance Sheet

(c) Cash Flow Statement

(d) Funds Flow Statement

Question 10. Claims against the company not acknowledged as debts is shown under

(a) current liabilities

(b) non-current liabilities

(c) commitments

(d) contingent liabilities

Very Short Questions-

1. State the importance of financial analysis for labour unions.
2. If operating is not given, what is the time for the operating cycle assumed?
3. If the operating cycle is given for 12 months and the payment cycle for trade payables is 15 months, how will you classify the liability?
4. Name any one line item that can be shown under the major heading 'Equity and Liabilities' in a company's Balance Sheet.
5. Name any one item that can be disclosed under 'Short Term Provisions'.
6. How would you treat preliminary expenses?
7. Give one example of unamortised expenses.
8. State any one component of shareholders' funds.
9. How would you treat share forfeiture account?
10. Mention one component of Reserves and Surplus.

Short Questions-

1. State the meaning of financial statements?
2. What are limitations of financial statements?
3. List any three objectives of financial statements?
4. State the importance of financial statements to
(i) shareholders (ii) creditors (iii) government (iv) investors

Long Questions-

1. Explain the nature of the financial statements.
2. Explain in detail about the significance of the financial statements.
3. Explain the limitations of financial statements.

Assertion Reason Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
 - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
 - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
 - c. Only Assertion is correct.
 - d. Reason is correct but Assertion is not correct.

Assertion: While preparing Notes to Accounts on Share Capital, Calls-in-Arrears is shown by way of deduction from the Subscribed Capital (Subscribed but not fully paid-up).

Reason (R): As per the Companies Act, 2013, Part I of the Schedule III, Calls in Arrears is the other current asset of the company.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.
 - a. Assertion and Reason both are correct and Reason is the correct explanation of assertion
 - b. Assertion and Reason both are correct but Reason is not correct explanation of assertion

- c. Only Assertion is correct.
- d. Reason is correct but Assertion is not correct

Assertion: Amount received in advance by a company, on calls not yet made should be shown in the Balance Sheet under Other Current Liabilities. It is called 'Calls-in-Advance'.

Reason (R): Company may receive amount against calls not yet made only if its Articles of Association permits.

Case Study Questions-

MCQ Answers-

1. Answer: (c) same year
2. Answer: (b) Subscribed but not fully paid up capital
3. Answer: (c) other current liabilities
4. Answer: (c) Provision for retirement benefits
5. Answer: (c) reserves and surplus
6. Answer: (d) paid up capital
7. Answer: (d) Funds Flow Statement
8. Answer: (c) Intangible assets
9. Answer: (d) Funds Flow Statement
10. Answer: (d) contingent liabilities

Very Short Answers-

1. Answer: Labor unions analyse the financial statements to assess whether an enterprise can increase their pay.
2. Answer: 12 months.
3. Answer: Non-current Liability.
4. Answer: Shareholders' Funds
5. Answer: Provision for Doubtful debts.
6. Answer: Preliminary expenses are written off in the year in which they are incurred.
7. Answer: Discount on issue of shares / debentures.
8. Answer: Reserves & Surplus.
9. Answer: Added in the subscribed.

10. Answer: Securities Premium Reserves.

Short Answers-

1. Financial statements are the end products of an accounting process, it provides a true picture of the performance of the company over a time period and such a statement is used by different users of accounting information. These statements are prepared annually.
2. **Limitation are:**
 - i. Financial statements reflect historical data i.e it reflects the original price of the items or the price at which items were acquired. It fails to highlight the current price of items as per market and also inflated price due to rising inflation in the market. Hence data and information are historical in nature.
 - ii. Financial statement do not portray the qualitative aspects of any transaction, the aspects such as size, colour, quality and the capabilities. Only quantitative data which can be expressed in monetary value are considered
 - iii. Financial statement are biased in nature as it is dependent on human interference.
 - iv. It becomes difficult to assess the performance of another company.
 - v. It will be difficult to forecast as the statement is prepared based on historical data.
3. **The objectives of preparing financial statements are:**
 - i. A financial statement provides timely and reliable information on the economic status of a company on a periodical basis. It also makes information available to external users or stakeholders who do not have direct access to the information.
 - ii. A financial statement helps in revealing the true financial position of a company. It contains information related to liquidity, profitability, financial viability and solvency of an organisation.
 - iii. A financial statement is helpful in evaluating the earning capacity of a firm.
4. **Following are the importance of financial statements for:**
 - i. **Shareholders:** For a shareholder, a financial statement is helpful in determining viability and profit making capacity of a business. It provides businesses with sufficient data to analyse the financial health and performance of the business.
 - ii. **Creditors:** A financial statement is essential for a creditor to understand the credit worthiness of the business along with liquidity. It helps them to decide whether

further investments can be done for this business.

- iii. **Government:** A financial statement helps government in determining GDP, national income, industrial growth etc. which leads to formulation of various policies and addressing problems like poverty and unemployment etc.
- iv. **Investors:** For Investors who have invested or those planning to invest, a financial statement is necessary. Financial statement helps determining the prospects and viability of new investments.

Long Answers-

1. The nature of financial statements are:

- i. Financial statement record facts about the items at the original price at which they were purchased and doesn't take into account the prevailing market price, and also do not include price fluctuations due to inflation.
- ii. The financial statements are created based on various accounting conventions such as Prudence convention, matching concept etc. and adhering to such conventions result in the statements being easy to understand, compare and reflect the fair and true financial situation of the organisation.
- iii. A financial statement is based on many concepts such as going concern concept, realisation concept, and money measurement concept. A financial statement adheres to all these concepts when financial statements are prepared.
- iv. In preparing financial statements personal judgements play an important role. For example when determining which method to charge depreciation and recording of stock at market value or cost price. All these are based on personal judgement.

2. The nature of financial statements are:

- i. It provides information to various users of accounting information which can be both internal and external. Users derive information as per their needs from such statements. For example it provides shareholders an idea about the viability of business while the same statement can be used by tax authorities to determine tax payable by organisation.
- ii. It helps management in comparing performance which can be on both inter and intra firm basis, it helps in determining the viability of business and also is helpful in framing of policies for business. It enhances the decision making capabilities of the management.
- iii. Financial statements help creditors and investors determine the state of solvency of a business which influences decision to offer loans and credit.

- iv. Financial statements help provide information on different policies, methods, best practices and accounting processes. Disclosing accounting policies simplifies financial statements and makes users of accounting information.
- v. The government uses accounting information to determine various parameters of national growth like GDP, National Income, Industrial growth etc.
- vi. Investors need information on business solvency and profitability to offer further loans and invest in business and such information is obtained from financial statements.

3. Limitation are:

- i. Financial statements reflect historical data i.e. it reflects the original price of the items or the price at which items were acquired. It fails to highlight the current price of items as per market and also inflated price due to rising inflation in the market. Hence data and information are historical in nature.
- ii. Financial statement do not portray the qualitative aspects of any transaction, the aspects such as size, colour, quality and the capabilities. Only quantitative data which can be expressed in monetary value are considered.
- iii. Financial statement are biased in nature as it is dependent on the personal judgement regarding the way transactions are recorded.
- iv. It becomes difficult to assess the financial performance of one company with another due to differences in practices and methods adopted by each company.
- v. It will be difficult to forecast as the statement is prepared based on historical data as it fails to capture inflation rates.
- vi. The company can manipulate the data to show better liquidity position which can give false impression to the investors leading to project cancellation.

Assertion Reason Questions-

1. (c) Only Assertion is correct.
2. (a) Assertion and Reason both are correct and Reason is the correct explanation of assertion.