

JAIIB AFM Practice Questions (Set-1)

Q1. Which of the following statements regarding the types of GST in India is/are correct?

1. SGST stands for State Goods and Services Tax.
2. CGST stands for Central Goods and Services Tax.
3. UGST is applicable for Union Territories like Chandigarh and Andaman and Nicobar Islands.
4. IGST is levied by the Central Government for inter-state transactions and imported goods or services.

- (a) All of the statements are correct.
- (b) Statements 1, 2, and 3 are correct.
- (c) Statements 2, 3, and 4 are correct.
- (d) Only statements 1 and 2 are correct.

Q2. Where do revenue expenses and receipts go in the final accounts?

- (a) Balance Sheet
- (b) Trading and Profit and Loss Account
- (c) Bank Statement
- (d) Cash Book

Q3. What are some of the main limitations/disadvantages of Marginal Costing?

Statement 1: Segregating costs into fixed and variable costs can be challenging, as some expenses exhibit characteristics of both, and precision in classification is difficult.

Statement 2: The assumption that fixed costs remain constant and variable costs are entirely proportional to production volume is not always realistic.

- (a) All of the statements are correct.
- (b) Statement 1 is correct only.
- (c) Statement 2 is correct only.
- (d) None of the statements is correct.

Q4. What is the primary purpose of a Bill of Exchange in commercial transactions?

- (a) To serve as a record of debt.
- (b) To facilitate the transfer of ownership of goods.
- (c) To provide a method of securing a loan.
- (d) To ensure payment for goods or services provided.

Q5. Which of the following can be inferred regarding the prominent points about budgets based on various definitions?

A. A budget serves solely as a financial plan focused on future revenue without considering future costs.

B. One key aspect of a budget is that it includes a systematic plan for the utilisation of resources such as manpower and materials.

C. A budget is typically prepared and approved during the budget period, often requiring constant adjustments throughout the year.

D. A budget is a plan expressed only in monetary terms and does not account for physical units or other non-monetary measures.

- (a) Only A, C, D
- (b) Only B, C
- (c) Only B, D
- (d) All of the above

Q6. Under the Straight-Line Method, a company purchases equipment for ₹600,000 with an estimated residual value of ₹100,000 and a useful life of 10 years. What is the depreciation expense for each year?

- (a) ₹50,000
- (b) ₹55,000
- (c) ₹60,000
- (d) ₹65,000

Q7. Which statements accurately describe the treatment of cash flows arising from transactions in a foreign currency according to the relevant standards?

Statement 1: Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency at the date of the cash flow.

Statement 2: The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Statement 3: Cash flows denominated in a foreign currency are reported in a manner consistent with Ind AS 21.

Statement 4: Cash flows in a foreign currency must be converted using the average exchange rate for the period during which the cash flows occurred.

- (a) Statements 1 and 2 only
- (b) Statements 1, 2, and 3 only
- (c) Statements 2 and 4 only
- (d) Statements 1 and 4 only

Q8. How is a Body of Individuals (BOI) different from an Association of Persons (AOP)?

- (a) BOI can include both natural and artificial persons
- (b) BOI includes only natural persons, while AOP can include artificial persons
- (c) BOI is not treated as a separate entity for tax purposes
- (d) BOI is formed for a non-commercial objective, unlike AOP

Q9. Which type of instruments can a branch pay on behalf of other branches, having received the amount for payment from the customers concerned?

- (a) Gift cheques
- (b) Interest warrants
- (c) Dividend warrants
- (d) All of the above

Q10. ABC Bank processes various bills for collection and issues letters of credit and guarantees. If a current account is debited in error instead of a cash credit account, how would composite vouchers be utilized?

- (a) Bills received for collection necessitate the use of composite vouchers.
- (b) Issuing letters of credit and guarantees involves composite vouchers.
- (c) Composite vouchers are employed to correct the error by accurately recording the debits and credits.
- (d) All of the above.

Q11. A Bank Reconciliation Statement is made up using the___ from following which?

- (a) The bank column of the Cashbook and the Bank Statement
- (b) The Cash column of the Cashbook and Bank statement
- (c) Bank column of the cash book and cash column of the Cashbook
- (d) None of all of the above

Q12. Based on the accounting standard, Ind AS 116, which of the following statements can be inferred about the classification and reassessment of leases?

1. An operating lease is defined as one that does not transfer substantially all risks and rewards incidental to ownership of the underlying asset.
 2. The classification of a lease as either finance or operating depends solely on the form of the contract.
 3. Lease classification is determined at the inception date and can only be reassessed if there is a modification in the lease.
 4. A lease classified as an operating lease initially can be reassessed based on changes in economic conditions, without any modification to the lease terms.
- (a) Only 1, 2
 - (b) Only 1, 3
 - (c) Only 2, 4
 - (d) All of the above

Q13. Which of the following statements is true about Risk-Based Internal Audit (RBIA) in banks?

- (a) RBIA focuses exclusively on compliance-related issues and does not prioritize the identification or management of operational risks.
- (b) RBIA involves a comprehensive review of every financial transaction conducted by the bank, irrespective of the associated risk level.
- (c) RBIA evaluates the risks associated with various banking activities and prioritizes the audit of those areas that have the highest risk, ensuring effective risk management.
- (d) RBIA replaces traditional internal audits by eliminating the need for any further audits once a risk-based audit is conducted.

Q14. Which statements accurately describe the key points of the Net Operating Income Approach as developed by David Durand?

Statement 1: The WACC of a firm remains unaffected by the change in the debt proportion in the capital structure.

Statement 2: The benefit derived from debt is negated by an increase in the required rate of return by equity shareholders due to higher risk perception.

Statement 3: The market value of a firm is dependent on its operating income and business risks.

Statement 4: The increased debt proportion always increases the overall risk of the firm, leading to a decrease in the market value.

- (a) Statements 1, 2, 3 only
- (b) Statements 1 and 3 only
- (c) Statements 2 and 4 only
- (d) All of the above statements

Q15. Which of the following statements accurately describe the introduction and impact of the Goods and Services Tax (GST) in India?

Statement 1: GST was introduced in India on 01 July 2017, amalgamating a large number of Central and State taxes into a single tax.

Statement 2: GST has made indirect taxes on goods and services less transparent to the consumer.

Statement 3: The introduction of GST encourages a shift from the informal to the formal economy and reduces the cost of compliance.

Statement 4: GST is levied on a wide range of transactions, including sale, transfer, purchase, barter, lease, or import of goods and/or services.

Statement 5: GST subsumes all indirect taxes, including all State taxes.

- (a) Statements 1, 3, and 4 only
- (b) Statements 2, 3, and 5 only
- (c) Statements 1, 2, and 5 only
- (d) Statements 3 and 4 only

Q16. Which of the following is NOT an example of data in accounting?

- (a) Price and sales tax details in a sales invoice.
- (b) Date of sale mentioned in a sales invoice.
- (c) The final audited financial statements of a company.
- (d) Assumptions used to estimate depreciation.

Q17. A trader writes (sells) a call option with a strike price of ₹1,000 and earns a premium of ₹50. The stock price at expiry is ₹1,200. What is the net profit or loss per option for the trader?

- (a) 150 loss
- (b) 50 profit
- (c) 100 loss
- (d) 50 loss

Q18. When was the original standard for accounting issued, and what is the significance of its revisions in 2016?

- (a) The standard was originally issued in 1981 and was revised in 2016 to align with global accounting practices for all types of entities, both companies and non-companies.
- (b) The standard was introduced in 1981 but revised in 2016 specifically for companies, with no impact on other types of entities.
- (c) The standard was first implemented in 1981 and later updated in 2016 by both the Ministry of Corporate Affairs and ICAI for companies and non-companies, respectively, with mandatory compliance starting in 2017.
- (d) The original issuance in 1981 remains unchanged, but the revisions in 2016 were designed to create voluntary guidelines for all entities.

Q19. Which of the following statements is true regarding a Sale and Lease-back transaction?

A. In a Sale and Lease-back transaction, the seller transfers both ownership and possession of the asset to the buyer, who then takes over the operational control of the asset.

B. This type of transaction allows a firm to unlock the value of its owned assets by selling them and simultaneously leasing them back, thereby continuing to use the asset without owning it.

C. Sale and Lease-back transactions were criticized during the 1990s due to the misuse of this method, where junk assets were sold at inflated prices and disguised as legitimate transactions.

D. In a Sale and Lease-back transaction, the ownership of the asset remains with the original owner while only the possession is transferred to the other party.

(a) Only A and C

(b) Only B and C

(c) Only A, B, and D

(d) Only B, C, and D

Q20. Avichal Publishers bought a machine for ₹20,000, and it depreciates at 10% per annum. After 3 years, how much has the machine depreciated in total?

(a) 5,420

(b) 4,580

(c) 6,000

(d) 5,000

Q21. A company bought equipment for ₹3,00,000, with an expected residual value of ₹60,000 and an estimated useful life of 8 years. What will be the book value of the equipment after 2 years if the straight-line method of depreciation is used?

(a) ₹2,25,000

(b) ₹2,50,000

(c) ₹2,10,000

(d) ₹2,40,000

Q22. How does accounting help a business entity ascertain the result of its operations?

(a) By preparing a balance sheet that shows the financial position at a specific point in time.

(b) By creating a cash flow statement that tracks the inflow and outflow of cash.

(c) By preparing a trading and profit and loss account or an income and expenditure account to show profit or loss.

(d) By maintaining systematic records of daily transactions to ensure compliance with regulations.

Q23. An enterprise is assessing its compliance with the Second Method of Lending. It currently has total current assets worth ₹2,00,000. According to this method, what is the minimum amount of Net Working Capital (NWC) that the enterprise must bring in to meet the requirements?

(a) ₹50,000

(b) ₹1,50,000

(c) ₹40,000

(d) ₹75,000

Q24. How do ratios facilitate inter-firm comparison?

- (a) By showing the exact profit margin of each firm
- (b) By highlighting factors that contribute to the success or failure of firms
- (c) By comparing the physical assets of different firms
- (d) By focusing on non-financial factors alone

Q25. Faster Path Production manufactures running shoes. The management conducts a meeting with team leaders and they plan to manufacture 300 units of shoes in the coming year. They estimate the costs as follows:

- 1. direct labour: ₹500 per hour**
- 2. raw material: ₹1000 per unit**
- 3. manufacturing overhead: ₹800 per unit**
- 4. time to produce one unit: 5 hours**
- 5. fixed overhead: ₹1,00,000**

Using these values, Calculate the standard cost

- (a) 750000
- (b) 835000
- (c) 1390000
- (d) 1520000

Q26. What are the mandatory financial statements required by the International Financial Reporting Standards (IFRS) for listed companies?

- (a) Statement of Financial Position, Statement of Comprehensive Income, and Statement of Cash Flows.
- (b) Statement of Financial Position, Statement of Profit or Loss, Statement of Changes in Equity, Statement of Cash Flows, and Notes.
- (c) Statement of Financial Position and Statement of Profit or Loss only.
- (d) Income Statement, Balance Sheet, Cash Flow Statement, and Statement of Retained Earnings.

Q27. Which of the following can be inferred regarding the syndication of loans?

- A. Syndication involves sharing a long-term loan by multiple banks to mitigate risk.**
- B. It is typically used for small loans, given its complexity.**
- C. The borrower mandates one bank to arrange the total loan amount, known as the Lead bank.**
- D. All banks involved in the syndication must appraise the loan proposal according to their policies and risk appetite.**

- (a) Only A, C, D
- (b) Only B, C
- (c) Only A, B, D
- (d) All of the above

Q28. Under Section 32 of the Banking Regulation Act, 1949, when is a banking company required to furnish three copies of its annual accounts and auditor's report to the Registrar of Companies?

- (a) When demanded by the Registrar of Companies
- (b) At the time of submission to the Reserve Bank of India
- (c) At the end of the fiscal year
- (d) Whenever the auditor's report is amended

Q29. Which statements are true about Reconciliation of Accounts with Correspondent Banks?

Statement 1: Banking reconciliation mainly fixes mistakes in customer transactions.

Statement 2: Basic reconciliation matches entries between a bank's internal accounts and its Nostro accounts.

Statement 3: Nostro accounts are foreign currency accounts held by customers.

Statement 4: "Nostro Account" means an account with a bank's overseas branch or correspondent.

Statement 5: Reconciliation only involves comparing a bank's internal records with its customer records.

- (a) Statements 2 and 3
- (b) Statements 3 and 4
- (c) Statements 1 and 3
- (d) Statements 2 and 4

Q30. Based on the distinct advantages of Marginal Costing, which of the following statements is most accurate?

1. Marginal costing offers a more rational basis for determining sales prices, particularly in times of economic recession.

2. Separate records must be maintained for marginal costing as it requires specialized data beyond the regular accounting records.

3. The break-even point, a critical metric for management, can only be accurately determined through marginal costing.

4. Marginal costing simplifies the comparison and evaluation of products, business segments, and territories based on marginal costs and contribution figures.

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

Q31. A company's EBIT is ₹1,00,000, and it is considering issuing ₹5,00,000 of debt at an interest rate of 8%. The company is in the 30% tax bracket. Calculate the interest tax shield.

- (a) ₹12,000
- (b) ₹15,000
- (c) ₹18,000
- (d) ₹20,000

Q32. What is the main use of challans in the context of payments to Central or State Government accounts?

- (a) Challans are used to request refunds from the government for overpaid taxes.
- (b) Challans serve as receipts for charitable donations made to non-governmental organizations.
- (c) Challans are formal documents used to make payments to the government for taxes and contributions to public schemes.
- (d) Challans are issued only to businesses for paying fines and penalties.

Q33. How does the Bank Reconciliation Statement (BRS) handle timing differences between the company's cash book and the bank statement?

- (a) The BRS assumes that the company's cash book is always accurate and makes adjustments to the bank statement to match it.
- (b) The BRS recognizes that timing differences can exist due to outstanding checks, deposits in transit, and bank fees, and reconciles these differences by adjusting both records.
- (c) The BRS focuses only on correcting errors made by the bank, without making any changes to the company's cash book balance.
- (d) The BRS assumes that all differences are due to errors in the company's cash book and adjusts the bank balance accordingly.

Q34. Which statements accurately describe the controlling function in finance?

Statement 1: The finance function stops once decision-making, organizing, and directing are complete.

Statement 2: Controlling involves keeping a continuous watch on the activities of the firm to identify deviations from the approved plan.

Statement 3: Control is necessary in project execution to avoid substantial cost and time overruns, ensuring the project's viability.

Statement 4: Budgeting, record keeping, and financial reporting are not part of the control function in an organization.

- (a) Statements 1 and 2 only
- (b) Statements 2 and 3 only
- (c) Statements 3 and 4 only
- (d) Statements 1 and 4 only

Q35. Which statements accurately describe the key characteristics of Concurrent Audit?

Statement 1: Concurrent audit is an examination that occurs simultaneously with the occurrence of transactions or as close to it as possible.

Statement 2: Concurrent audit aims to minimize the time between a transaction and its examination by an independent person.

Statement 3: Concurrent audit is conducted by internal auditors on a quarterly basis.

Statement 4: In Concurrent Audit, basic daily transactions are examined and checked to ensure irregularities are addressed promptly, emphasizing substantive checking over test checking in key areas.

- (a) Statements 1 and 2 only
- (b) Statements 2 and 4 only
- (c) Statements 1 and 3 only
- (d) Statements 1, 2, and 4 only

Q36. A company's trial balance shows total debits of ₹750,000 and total credits of ₹750,000. However, the company has yet to record depreciation of ₹50,000 on its equipment. What will the final debit and credit totals be after the adjustment entry for depreciation?

- (a) ₹800,000 debits and ₹800,000 credits
- (b) ₹750,000 debits and ₹800,000 credits
- (c) ₹800,000 debits and ₹750,000 credits
- (d) ₹700,000 debits and ₹700,000 credits

Q37. How does revenue expenditure affect a company's financial performance in the current accounting period?

- (a) It increases the company's profits by adding to the value of the company's assets.
- (b) It decreases the company's profits as it is recorded as an expense in the profit and loss account.
- (c) It has no impact on the company's financial performance as it is only recorded in the balance sheet.
- (d) It improves the company's liquidity by creating future liabilities that will be repaid in later periods.

Q38. A bill of exchange of ₹1,20,000 is drawn on 1st February 2024 for 3 months and is accepted on 5th February 2024. What will be the maturity date of the bill?

- (a) 4th May 2024
- (b) 8th May 2024
- (c) 7th May 2024
- (d) 5th May 2024

Q39. An entity shall classify an asset as current when:

1. It expects to realise the asset, or intends to sell or consume it, in its normal operating cycle.
2. It holds the asset primarily for the purpose of trading.
3. It expects to realise the asset within twelve months after the reporting period.
4. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Which of the following correctly describes the conditions under which an asset is classified as current?

- (a) Only statement 1 is correct
- (b) Statements 1 and 3 are correct
- (c) Statements 1, 2, and 3 are correct
- (d) All the statements are correct

Q40. What is the role of the Accounting Standards Board (ASB) in the procedure for formulating accounting standards?

- (a) The ASB only finalizes the draft and forwards it to the Council of ICAI for approval.
- (b) The ASB determines the broad areas for which accounting standards are to be formulated and selects the priority of these standards.
- (c) The ASB directly issues accounting standards without involving the Council of ICAI.
- (d) The ASB does not conduct any consultations with external bodies during the formulation of accounting standards.

Q41. According to Para 38A, how many balance sheets must an entity present as a minimum?

- (a) One
- (b) Two
- (c) Three
- (d) Four

Q42. What is a significant result of computerization and technological innovation in banking?

- (a) Introduction of mobile banking.
- (b) Introduction of Automated Teller Machines (ATMs).
- (c) Introduction of online banking services.
- (d) Introduction of manual banking processes.

Q43. Which of the following statements accurately describes the characteristics of Credit Default Swaps (CDS)?

Statement 1: In a CDS, the risk seller (lending bank) pays a premium to the buyer for protection against credit default or any other specified credit event.

Statement 2: The protection buyer makes periodic payments to the protection seller until the maturity of the contract or the occurrence of a credit event, whichever comes later.

Statement 3: The CDS contract is bilateral, involving a protection buyer and a protection seller.

Statement 4: The protection seller provides coverage against losses in the value of an underlying debt instrument due to credit events.

- (a) Statements 1, 2, and 3 only
- (b) Statements 1 and 4 only
- (c) Statements 2 and 4 only
- (d) Statements 3 and 4 only

Q44. A risk-based internal audit finds that three departments of a bank have the following risk-weighted assets: Department X: ₹500 crore, Department Y: ₹800 crore, and Department Z: ₹700 crore. If the total capital allocated to cover risks is ₹200 crore, how much capital should be allocated to Department Y based on the proportion of its risk-weighted assets?

- (a) ₹80 crore
- (b) ₹88 crore
- (c) ₹96 crore
- (d) ₹104 crore

Q45. Which of the following is the most appropriate guideline for handling passwords in an organization?

- (a) Sharing passwords with colleagues to ensure smooth work operations
- (b) Asking customers and colleagues for their passwords to troubleshoot issues
- (c) Treating passwords as sensitive and confidential, and not sharing them with anyone
- (d) Sharing passwords with IT staff for technical support purposes

Q46. A bakery has received an order for 140 identical cakes. The estimated costs are as follows: material cost ₹14,000, labour cost ₹8,000, and manufacturing overheads ₹6,000. Fixed/non-manufacturing overheads are allocated at 10% of the material cost. Using the batch costing system, what will be the cost of one cake?

- (a) ₹145
- (b) ₹125
- (c) ₹150
- (d) ₹210

Q47. XYZ Ltd. borrows Rs. 50,000 at an annual interest rate of ten percent. By the end of the year, the company incurs Rs. 5,000 as interest expenses. If XYZ Ltd. hasn't yet paid the interest, which accounting entry accurately represents the situation?

- (a) Debit Interest Account, Credit Cash Account
- (b) Debit Lender's Account, Credit Interest Account
- (c) Debit Cash Account, Credit Interest Account
- (d) Debit Interest Account, Credit Lender's Account

Q48. Which of the following can be inferred regarding the use and application of Multiple or Composite Costing?

- A. This method is suitable for complex products where a single costing system is not practical.**
- B. It is typically used for products involving components produced at a single location.**
- C. The total cost is determined by aggregating component costs, which may involve various costing methods.**
- D. Multiple or Composite Costing is not applicable to industries such as motor vehicles or locomotives.**

- (a) Only A, C
- (b) Only B, D
- (c) Only A, B, D
- (d) All of the above

Q49. When preparing a Funds Flow Statement, which of the following elements would be the main focus?

- (a) Cash receipts and payments categorized into operating, investing, and financing activities.
- (b) Changes in the working capital of the company, showing how funds are generated and applied.
- (c) The company's total income and expense transactions during a given period, broken down by source.
- (d) An analysis of how non-cash items such as depreciation and amortization impact the company's overall profitability.

Q50. What is the result if the debit side of the Trial Balance exceeds the credit side?

- (a) The accounts are balanced
- (b) It indicates a surplus of profitsThere may be an error in posting or calculation
- (c) There may be an error in posting or calculation
- (d) There are no expenses recorded

Q51. Under the Companies Act, 2013, what percentage of their average net profits from the previous three financial years are companies in India statutorily required to spend on Corporate Social Responsibility (CSR)?

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

Q52. What will be the simple interest on a principal of Rs. 7,000 for 2 years at a rate of 10% per annum?

- (a) Rs. 700
- (b) Rs. 1850
- (c) Rs. 950
- (d) Rs. 1400

Q53. Which of the following assets is most suitable for using the Straight Line Method of depreciation?

- (a) Office Furniture
- (b) Oil Rig Equipment
- (c) Computer Hardware
- (d) Delivery Vehicles

Q54. Which of the following classifications is NOT true for inventories as per the given provision?

- (a) Raw materials
- (b) Work-in-progress
- (c) Intangible assets
- (d) Finished goods

Q55. A vehicle was purchased for ₹200,000 with an estimated scrap value of ₹20,000 and an estimated useful life of 8 years. What is the annual depreciation expense?

- (a) ₹25,000
- (b) ₹22,500
- (c) ₹20,000
- (d) ₹22,000

Q56. Which of the following correctly describes the comparison of three methods of working capital assessment?

- A. The Turnover Method assumes that a firm's working capital requirements are based on a percentage of projected sales, providing a simplified way to estimate funding needs.**
- B. The Cash Flow Method focuses on the timing of cash inflows and outflows, ensuring that a firm maintains sufficient liquidity to meet its day-to-day operational needs.**
- C. The Operating Cycle Method calculates working capital based on the firm's production, sales, and collection processes, taking into account the time taken to convert raw materials into cash.**
- D. All methods assume that long-term financing is necessary for current assets, with the firm required to maintain a high capital adequacy ratio to meet its working capital needs.**

- (a) Only A and C
- (b) Only A, B, and C
- (c) Only B and D
- (d) All of the above

Q57. A company deducts TDS at the rate of 10% on payments to a contractor. If the company paid ₹5,00,000 to the contractor, what is the amount of TDS deducted by the company?

- (a) 45,000
- (b) 40,000
- (c) 50,000
- (d) 55,000

Q58. Which of the following is the correct classification of share capital?

- (a) Authorized capital, Invested capital, Earned capital, Paid-up capital, Final capital
- (b) Authorised capital, Issued capital, Subscribed capital, Called up capital, Paid-up capital
- (c) Invested capital, Authorized capital, Subscribed capital, Final capital, Paid-up capital
- (d) Initial capital, Subscribed capital, Called up capital, Paid-up capital, Authorized capital

Q59. How should non-cash investing and financing transactions be handled in financial reporting?

- (a) They should be included in the statement of cash flows under financing activities
- (b) They should be disclosed in a separate section of the cash flow statement
- (c) They should be disclosed elsewhere in the financial statements, outside the cash flow statement
- (d) They should not be reported in any part of the financial statements

Q60. How does a Bill of Exchange differ from a Promissory Note in terms of payment obligation?

- (a) A Bill of Exchange is an order to pay from the drawer to the drawee, while a Promissory Note is a promise to pay made by the drawee to the payee.
- (b) A Bill of Exchange requires payment only upon delivery of goods, while a Promissory Note involves unconditional payment without regard to goods or services.
- (c) A Bill of Exchange is used primarily for domestic transactions, while a Promissory Note is used for international payments.
- (d) A Bill of Exchange involves only two parties, while a Promissory Note involves three parties in the transaction.

Q61. Complete the following by selecting the right set of options:

___ is that expenditure whose benefit is enjoyed or consumed ___ year(s) but over ___. It results in the ___ or acquisition of ___ which may be used for many years. The main purpose of such expenditure is to earn ___ over a period of years or to increase the ___ of the business concern with the aid of benefits acquired from such expenditure.

- (a) Capital expenditure, in one, many years, purchase, assets, income, earning capacity
- (b) Revenue expenditure, in many, one year, disposal, liabilities, loss, expenditure
- (c) Operating expenditure, in many, a few years, depreciation, expenses, profit, growth potential
- (d) Capital expenditure, in many, one year, sale, inventories, revenue, financial stability

Q62. Which of the following statements correctly describes the role and use of journals in accounting practices?

1. The journal, as a foundational book of prime entry, is used exclusively for recording complex and irregular transactions, with no role in daily entries.

2. Every transaction is initially recorded in a journal in a chronological order before it is posted to specific ledgers, which facilitates error tracking and correction.

3. Specialized journals are no longer relevant in modern accounting practices as all transaction types are managed through a single, comprehensive journal system.

- (a) Only 1, 2
- (b) Only 2, 3
- (c) Only 2
- (d) All of the above

Q63. What principle underpins the financial reporting requirements in the context of Joint Stock Companies, as derived from historical developments in financial accounting?

- (a) The principle of unlimited liability, where shareholders are required to contribute additional funds beyond their initial investment in the event of a company's financial failure.
- (b) The doctrine of stewardship, which mandates the disclosure of financial information to shareholders through annual reports, reflecting the limited liability of shareholders and the legal requirements of company operations.
- (c) The rule of complete transparency, where every financial transaction of the company must be publicly disclosed on a daily basis to ensure shareholder confidence.
- (d) The requirement for all shareholders to be actively involved in the daily management of the company, as their investments are directly tied to the company's operational decisions.

Q64. Which of the following correctly reflects the balance sheet equation after a company issues additional equity of ₹100 crore, assuming that its liabilities remain the same?

- (a) The company's total assets and equity increase by ₹100 crore, while liabilities remain unchanged.
- (b) The company's total liabilities increase by ₹100 crore, but assets remain constant.
- (c) The total equity decreases by ₹100 crore to accommodate the issuance of new shares, while liabilities and assets increase proportionally.
- (d) The balance sheet equation will no longer hold after issuing new equity, as assets and liabilities must always remain constant.

Q65. Which of the following statements about the payback method is correct?

Statement 1: The payback method calculates the time required for the receipts from an investment to cover the initial cost.

Statement 2: The payback method can be used to rank projects when investments are mutually exclusive, by selecting projects with the shortest payback period.

Statement 3: The payback method is the only investment appraisal technique that accounts for the time value of money.

- (a) Statement 1 and Statement 2 are correct, but Statement 3 is incorrect.
- (b) Statement 1 and Statement 3 are correct, but Statement 2 is incorrect.
- (c) Statement 2 and Statement 3 are correct, but Statement 1 is incorrect.
- (d) Statement 1, Statement 2, and Statement 3 are all correct.

Q66. What characteristic distinguishes a cheque from other forms of negotiable instruments according to the Negotiable Instruments Act?

- (a) A cheque is a unique type of negotiable instrument because it can only be issued by a bank, whereas other forms such as promissory notes can be issued by individuals or businesses.
- (b) A cheque, as defined by the Negotiable Instruments Act, is a form of bill of exchange that must specifically be drawn against a specified banker and is payable on demand, unlike other negotiable instruments which may not specify a banker or immediacy of payment.
- (c) A cheque is considered a negotiable instrument because it allows for the transfer of large sums of money without the need for physical cash, a feature not typically allowed with other forms of negotiable instruments like bills of exchange or promissory notes.
- (d) Unlike other negotiable instruments, a cheque is legally bound to be honored by the issuing bank as long as the account holds sufficient funds, which is not a requirement for other types such as bills of exchange.

Q67. After the preparation of the financial statements, the revenue account has a balance of ₹1,00,000 and the expenses account has a balance of ₹80,000. What would be the closing entry to transfer these balances to the profit and loss account?

- (a) Debit Revenue Account ₹1,00,000 and Credit Profit and Loss Account ₹80,000
- (b) Debit Profit and Loss Account ₹80,000 and Credit Revenue Account ₹80,000
- (c) Debit Revenue Account ₹1,00,000 and Credit Profit and Loss Account ₹1,00,000
- (d) Debit Revenue Account ₹1,00,000 and Credit Expenses Account ₹80,000

Q68. How should investments in debentures and bonds of companies and corporations, not included in specific government or institutional categories, be presented?

- (a) As part of 'Reserves and Surplus'
- (b) As part of 'Debentures and Bonds' investments
- (c) As part of 'Cash and Bank Balances'
- (d) As part of 'Equity Investments'

Q69. Why is the assumption of going concern important for a business?

- (a) It ensures compliance with accounting standards and regulations.
- (b) It allows the business to report unused resources at cost rather than market values.
- (c) It helps the business to attract more investors and improve its market reputation.
- (d) It enables the business to maintain systematic records of daily transactions.

Q70. During the inspection of a bank's loan portfolio, which of the following risks is the auditor most likely to evaluate?

- (a) Operational risk
- (b) Credit risk
- (c) Market risk
- (d) Liquidity risk

Q71. In which scenario does the principle of a company being an artificial person apply?

- (a) The company's director personally owns all the company's properties.
- (b) A member of the company signs a contract with the company as a separate legal entity.
- (c) The company cannot be held liable in court; only its members can.
- (d) The company does not have the right to own properties independently of its members.

Q72. What's the main reason behind the growing use of Electronic/Online Payment methods for buying things?

- (a) There are fewer middlemen involved in electronic payments.
- (b) Banks now handle payment processing in one central place.
- (c) Merchants and banks are working together to get rid of middlemen.
- (d) Banks and payment service providers are making it easier for people to use electronic payments.

Q73. A company sells a product for ₹20,000. The applicable GST rate is 18%. Calculate the GST amount and the total price the customer needs to pay.

- (a) ₹2,600; ₹22,600
- (b) ₹3,200; ₹23,200
- (c) ₹3,600; ₹23,600
- (d) ₹4,000; ₹24,000

Q74. A company produces digital watches. It has fixed costs of ₹1,50,000 and variable costs of ₹200 per unit. The sales price is ₹350 per unit. During the year, it sold 4000 digital watches. What is the profit of the company during the year?

- (a) ₹3,50,000
- (b) ₹4,00,000
- (c) ₹4,50,000
- (d) ₹5,00,000

Q75. Which of the following can be inferred regarding the reporting of expenditures incurred on specific items?

- A. Expenditures on power and fuel must be combined with those on repairs to machinery.**
- B. The expenditure incurred on the consumption of stores and spare parts is reported separately from expenditures on rent and repairs to buildings.**
- C. The classification excludes the reporting of expenditures on repairs to machinery.**
- D. Reporting requires separate expenditures for items like power and fuel, rent, and repairs to buildings.**

- (a) Only A, C, D
- (b) Only B, D
- (c) Only B, C, D
- (d) All of the above

Q76. A company purchased office equipment worth ₹2,00,000 and follows the sum-of-the-years'-digits method of depreciation. If the equipment's useful life is 5 years, what is the depreciation expense for the first year?

- (a) ₹40,000
- (b) ₹66,667
- (c) ₹80,000
- (d) ₹1,00,000

Q77. When posting a transaction in the ledger, which of the following statements is correct regarding the use of the terms "To" and "By"?

- (a) The term "To" is used for accounts that appear on the credit side of the ledger account.
- (b) The term "By" is used for accounts that appear on the debit side of the ledger account.
- (c) The term "To" is used for accounts that appear on the debit side of the ledger account.
- (d) Both "To" and "By" are used interchangeably, depending on the type of transaction.

Q78. Why is it discouraged to keep a written or electronic copy of a password in an easily locatable place, as per banking IT security guidelines?

- (a) It prevents users from remembering their password
- (b) It increases the risk of unauthorized access to sensitive systems
- (c) It makes it difficult to reset passwords frequently
- (d) It results in the loss of encrypted data

Q79. Which of the following can be inferred regarding the accounting treatment for revaluations?

1. An increase in an asset's carrying amount due to revaluation is always credited directly to the owners' interests under revaluation surplus.
2. If a revaluation increase reverses a previous revaluation decrease of the same asset that was recognized in the Statement of Profit and Loss, the increase should be recognized in the Statement of Profit and Loss.
3. A decrease in an asset's carrying amount due to revaluation is always recognized in the Statement of Profit and Loss.
4. If a revaluation decrease reverses a previous revaluation increase recognized under revaluation surplus, the decrease should be debited directly to owners' interests under the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

- (a) Only 2, 4
- (b) Only 1, 3
- (c) Only 2, 3
- (d) All of the above

Q80. When the bank charges a customer for services such as collecting outstation cheques or issuing cheque books, how is the customer's account affected?

- (a) The customer's account is credited.
- (b) The customer's account is debited.
- (c) The customer's account remains unaffected.
- (d) The customer's account is suspended.

Q81. Which of the following statements accurately describe the preparation and purpose of a Trading Account?

Statement 1: The Trading Account is essential for the preparation of the Profit and Loss Account.

Statement 2: The Trading Account includes only the direct costs associated with the materials in which the firm is dealing.

Statement 3: The Trading Account calculates the 'Cost of Goods Sold' to determine 'Gross Profit'.

Statement 4: The Trading Account includes operating costs such as salaries and rent.

- (a) Statements 1 and 2 only
- (b) Statements 2 and 3 only
- (c) Statements 3 and 4 only
- (d) Statements 2 and 4 only

Q82. Which of the following best describes a Nostro Account maintained by Indian branches with overseas branches of the bank?

- (a) An account held by an overseas bank with the Indian central bank to facilitate domestic transactions.
- (b) An account maintained by an Indian bank with its own branches abroad to facilitate foreign currency transactions.
- (c) An account held by the Indian government with foreign banks for managing international trade.
- (d) An account maintained by an Indian bank with an overseas bank to manage its foreign currency reserves.

Q83. What is the recommended minimum tenure for the appointment of the Head of Internal Audit (HIA) in entities where internal audit is not a specialized function?

- (a) Six months
- (b) One year
- (c) Two years
- (d) Three years

Q84. Fill in the blanks:

The going concern principle assumes that a business will continue its operations for the foreseeable future, usually considered to be at least _____. This principle is crucial for preparing financial statements because it affects the valuation of assets and liabilities. If a company is unable to continue as a going concern, it must adjust its financial statements based on _____ rather than historical cost, leading to a significant impact on the reported _____.

- (a) 4 years; liquidation value; revenue
- (b) 1 year; fair value; expenses
- (c) 3 years; market value; assets
- (d) 5 years; net realizable value; equity

Q85. GST is expected to make Indian trade and industry more competitive by reducing the cost of production and inflation. GST will also help in developing a seamless Indian market, significantly enhancing _____.

- (a) Foreign investment
- (b) Trade relations
- (c) Economic growth
- (d) Employment rates

Q86. Which of the following is the primary function of the Money Market?

- (a) To provide long-term loans for infrastructure projects
- (b) To facilitate the trading of equities and corporate bonds
- (c) To offer short-term funding and liquidity to financial institutions
- (d) To conduct foreign exchange transactions

Q87. The concept that business transactions are recorded as and when they take place, creating historical records, is known as which of the following?

- (a) Accrual Concept
- (b) Going Concern Concept
- (c) Historical Cost Concept
- (d) Matching Concept

Q88. A company uses the Written Down Value Method at a rate of 20% per annum. If the asset cost is ₹100,000, what will be the depreciation for the second year?

- (a) ₹16,000
- (b) ₹20,000
- (c) ₹24,000
- (d) ₹32,000

Q89. Which of the following can be inferred from the process of disbursing a term loan as described?

- A. The borrower is always required to deposit their margin with the bank before the disbursement of the loan, regardless of the type of loan.**
- B. The disbursed loan amount is typically paid directly to the buyer (e.g., the seller of a machine or house) by the bank, ensuring proper usage of the loaned funds.**
- C. If the borrower has already made some payments towards the purchase, these payments, if satisfactorily verified, can be included as part of the borrower's margin contribution.**
- D. In exceptional cases, such as personal or consumption loans, the loan amount may be directly credited to the borrower's bank account instead of being paid to the buyer.**

- (a) Only A, B, C
- (b) Only B, C, D
- (c) Only B, D
- (d) All of the above

Q90. Mohan's bank reconciliation statement shows cheque deposited but not credited by bank of ₹ 3,800 and cheques issued but not presented by suppliers of ₹ 3,500. His bank balance as per Cash Book is ₹ 25,000. Balance as per pass book statement is:

- (a) ₹ 24,700
- (b) ₹ 25,000
- (c) ₹ 32,300
- (d) ₹ 25,300

Q91. Which of the following statements is true regarding the legal and tax status of a Firm and LLP in India?

- A. A Firm, under partnership law, is considered a legal entity distinct from its partners, but for tax purposes, it is not treated as a separate entity.**
- B. An LLP is considered a separate legal entity from its partners, with the partners' liability limited to their agreed contribution, making it a blend of corporate and partnership structures.**
- C. Both Firms and LLPs are taxed at the same flat rate of 30%, and the tax treatment does not differentiate between these two types of entities.**
- D. Firms are legally recognized as separate entities for income tax and GST purposes, even though they are not considered separate legal entities under partnership law.**

- (a) Only A, B, and C
- (b) Only B, C, and D
- (c) Only B and D
- (d) All of the above

Q92. If the total of the debit side of a trial balance is ₹4,50,000 and the total of the credit side is ₹4,45,000, what is the suspense account balance?

- (a) ₹5,000 (Debit)
- (b) ₹5,000 (Credit)
- (c) ₹10,000 (Debit)
- (d) ₹10,000 (Credit)

Q93. When an accountant refers to a company's solvency ratios in a financial report, what aspect of the company's financial health are they likely analyzing?

- (a) The company's immediate liquidity and ability to pay off short-term debts.
- (b) The company's profitability and return on investment.
- (c) The company's long-term financial position and its capacity to meet long-term obligations.
- (d) The efficiency of the company's operational processes and cost management.

Q94. On June 30th, the balance as per the Cash Book of MNO Company was ₹18,500. After comparing it with the Pass Book, the following discrepancies were identified:

- 1. Cheques issued but not yet presented: ₹4,200**
- 2. Cheques deposited but not yet credited: ₹2,800**
- 3. Bank charges recorded only in the Pass Book: ₹300**

4.A cheque of ₹1,500 deposited into the bank was dishonoured and not recorded in the Cash Book.

5. Interest credited by the bank: ₹400

What is the adjusted balance as per the Cash Book after accounting for the above discrepancies?

- (a) ₹15,700
- (b) ₹16,200
- (c) ₹18,000
- (d) ₹17,100

Q95. How do banks that use core banking solutions (CBS) currently perform reconciliation?

- (a) Reconciliation is done centrally with the help of computer systems in banks using CBS.
- (b) The reconciliation process is given to outside companies to manage.
- (c) Reconciliation is done by hand, without using technology.
- (d) Reconciliation is part of the usual check-up done by accountants and helped by auditors.

Q96. How should subsequent costs be accounted for in financial statements, according to common accounting practices regarding asset maintenance and inspection?

- (a) Subsequent costs should be capitalized and added to the asset's book value only if they provide additional future economic benefits and are not merely for maintaining current levels of performance.
- (b) All subsequent costs, including regular replacements and major inspections, should be expensed immediately to reflect a conservative approach in financial reporting, ensuring expenses are matched with the period they are incurred.
- (c) Subsequent costs, due to their recurring nature, should be allocated evenly over the asset's remaining useful life to smooth out expense recognition and provide a more balanced view of the asset's cost.
- (d) Major inspection costs should be capitalized irrespective of their impact on the asset's future benefits, while regular replacement parts should be expensed immediately, reflecting a mixed approach to asset cost management.

Q97. Which of the following factors primarily determines forward points in currency exchange markets when there are no capital flow controls?

- (a) Supply and demand for the currency for the settlement date.
- (b) Market view and expectations regarding future interest rates and foreign exchange developments.
- (c) Interest rate differential between the countries whose currencies are being exchanged.
- (d) Changes in government policies affecting currency exchange.

Q98. What is the main purpose of documentation in the context of banks' risk-based internal audit frameworks?

- (a) Documentation is primarily used to archive customer complaints and their resolutions for future reference.
- (b) Proper documentation helps banks demonstrate that their risk-based internal audit framework addresses all significant criteria and principles relevant to their organizational structure, business model, and risks.
- (c) Documentation is used to track employee performance and annual appraisals within the bank.
- (d) The main goal of documentation is to record the financial transactions of the bank for accounting purposes.

Q99. How are financial decisions implemented in an organization recorded in the books of account?

- (a) By ensuring compliance with statutory and regulatory provisions.
- (b) By maximizing the company's profits and minimizing expenses.
- (c) By recording financial transactions through the process of accounting, such as debiting and crediting the appropriate accounts.
- (d) By developing new strategies for market expansion and product development.

Q100. Which of the following can be inferred regarding the characteristics and mechanics of derivatives?

1. Derivatives typically require substantial initial investments similar to other contracts with comparable responses to changes in underlying assets.
2. One key feature of derivatives is their value fluctuation in response to changes in a specified underlying asset.
3. Derivatives are known for their simplicity in pricing and trading mechanisms, which do not involve complex calculations or high leverage.
4. Settlement of derivatives occurs at a predetermined future date.

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

Solutions

S1. Ans.(a)

Sol. SGST, CGST, UGST, and IGST are indeed the types of GST in India.

SGST stands for State Goods and Services Tax, CGST stands for Central Goods and Services Tax, and UGST is applicable for Union Territories.

IGST is levied by the Central Government for inter-State transactions and imported goods or services.

S2. Ans.(b)

Sol. Option B (Trading and Profit and Loss Account) is the right answer. This account is specifically designed to track the company's revenue (income) and expenses from its everyday operations, showing how the business performed financially during the period.

S3. Ans.(a)

Sol. Statement 1: Segregating costs into fixed and variable costs can be challenging, as some expenses exhibit characteristics of both, and precision in classification is difficult. This statement is correct. It acknowledges the difficulty in accurately categorizing certain expenses as purely fixed or variable.

Statement 2: The assumption that fixed costs remain constant and variable costs are entirely proportional to production volume is not always realistic. This statement is correct. In practice, fixed costs may vary with changes in production levels, and the relationship between variable costs and volume may not always be linear.

S4. Ans.(d)

Sol. The primary purpose of a Bill of Exchange is to ensure payment for goods or services rendered. It acts as a guarantee of payment between parties involved in a transaction, thereby enhancing trust and facilitating trade. The bill serves as evidence of the debt incurred and can be used as a means of payment, making it vital for credit transactions in commerce.

S5. Ans.(b)

Sol.

- **Option A** is incorrect because a budget is not solely a financial plan that focuses only on future revenue without considering future costs. A comprehensive budget typically considers both revenues and expenses to ensure proper financial planning.
- **Option B** is correct because one key aspect of a budget is that it includes a systematic plan for the utilization of resources such as manpower and materials. Budgeting is not only about finances but also about the effective allocation of other resources.
- **Option C** is correct because budgets are often prepared and approved during a budget period and frequently require adjustments throughout the year as circumstances change.
- **Option D** is incorrect as budgets do account for physical units and other non-monetary measures in various types of budgets, such as production budgets, which consider physical output.

S6. Ans.(a)

Sol. Annual depreciation = (Cost of Asset - Residual Value) / Useful Life

Annual depreciation = (₹600,000 - ₹100,000) / 10 = ₹50,000.

Information Booster:

1. The Straight-Line Method is the simplest and most widely used method of depreciation.
2. It allocates an equal amount of depreciation each year.
3. It is suitable for assets that have a uniform pattern of usage over time.
4. Residual value is deducted before calculating the depreciation expense.
5. The method makes financial reporting consistent and predictable.
6. It's commonly used for assets like office buildings and computers.

S7. Ans.(b)

Sol. Statement 1 is accurate. It describes the standard practice of translating foreign currency cash flows into the entity's functional currency using the exchange rate at the date of the cash flow.

Statement 2 is accurate. It states that the cash flows of a foreign subsidiary should be translated at the exchange rates at the dates of the cash flows.

Statement 3 is accurate. It specifies that cash flows in a foreign currency are reported in line with Ind AS 21, which provides guidelines for the effects of changes in foreign exchange rates.

Statement 4 is incorrect. Cash flows in a foreign currency are not required to be converted using the average exchange rate for the period; they should be converted at the exchange rate at the date of the cash flow as per Ind AS 21.

S8. Ans.(b)

Sol. The key distinction between a **Body of Individuals (BOI)** and an **Association of Persons (AOP)** lies in the composition of their members. A BOI consists solely of natural persons (individuals), whereas an AOP can include both natural persons and artificial persons (such as companies, firms, etc.). Both BOI and AOP are treated as separate entities for tax purposes under the Income Tax Act, and both are taxed accordingly. However, their formation objectives may differ, with BOI often formed for earning income.

S9. Ans.(d)

Sol. A branch can pay various types of instruments such as gift cheques, interest warrants, dividend warrants, repurchase warrants, refund warrants, and traveler's cheques on behalf of other branches. This is done when the branch has received the necessary amount for payment from the customers concerned.

S10. Ans.(d)

Sol. A composite voucher is a multifunctional document used to record several transactions simultaneously when a single event impacts multiple accounts. At ABC Bank, both the processing of bills for collection and the issuance of letters of credit and guarantees are transactions that typically involve composite vouchers because they affect various accounts like the customer's account, the bank's own account, and potentially a beneficiary's account. In scenarios where there is an accounting error, such as debiting a current account instead of a cash credit account, composite vouchers are crucial for rectifying these mistakes by properly documenting the necessary debits and credits, thereby ensuring the correct adjustment of all involved accounts.

S11. Ans.(a)

Sol. A Bank Reconciliation Statement (BRS) is prepared to reconcile the differences between the bank column of the Cashbook and the Bank Statement. The primary purpose of this statement is to identify and rectify any discrepancies between the records maintained by the bank and those maintained by the company.

S12. Ans.(b)

Sol.

- **Statement 1:** An operating lease is defined as one that does not transfer substantially all risks and rewards incidental to ownership of the underlying asset.
 - **True.** This is a direct statement from Ind AS 116.
- **Statement 2:** The classification of a lease as either finance or operating depends solely on the form of the contract.
 - **False.** According to Ind AS 116, the classification depends on the substance of the transaction rather than the form of the contract.

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- **Statement 3:** Lease classification is determined at the inception date and can only be reassessed if there is a modification in the lease.
 - **True.** Ind AS 116 specifies that classification is made at the inception date and is reassessed only if there is a lease modification.
 - **Statement 4:** A lease classified as an operating lease initially can be reassessed based on changes in economic conditions, without any modification to the lease terms.
 - **False.** Lease classification is reassessed only if there is a modification to the lease, not merely due to changes in economic conditions.

S13. Ans.(c)

Sol. RBIA in banks is a focused approach that identifies areas with the highest risk exposure and allocates audit resources accordingly. It does not completely eliminate traditional audits but enhances the focus on risk management within the auditing process.

S14. Ans.(a)

Sol. The correct statements that accurately describe the key points of the Net Operating Income Approach as developed by David Durand are:

1. **Statement 1:** The WACC of a firm remains unaffected by the change in the debt proportion in the capital structure.
2. **Statement 2:** The benefit derived from debt is negated by an increase in the required rate of return by equity shareholders due to higher risk perception.
3. **Statement 3:** The market value of a firm is dependent on its operating income and business risks.
4. **Statement 4:** is incorrect because the Net Operating Income Approach suggests that the overall risk of the firm does not necessarily increase with an increased debt proportion due to the counterbalancing effect on the required return by equity shareholders. The market value of the firm remains unaffected by the capital structure.

S15. Ans.(a)

Sol. Statement 1 is correct: GST was indeed introduced in India on 01 July 2017, amalgamating a large number of Central and State taxes into a single tax.

Statement 2 is incorrect: GST has made indirect taxes on goods and services more transparent to the consumer, not less.

Statement 3 is correct: The introduction of GST encourages a shift from the informal to the formal economy and reduces the cost of compliance.

Statement 4 is correct: GST is levied on a wide range of transactions, including sale, transfer, purchase, barter, lease, or import of goods and/or services.

Statement 5 is incorrect: GST subsumes almost all indirect taxes except a few State taxes, not all State taxes.

S16. Ans.(c)

Sol. The correct answer is C. While the final audited financial statements are a product of accounting data, they themselves are not considered raw data. Data in accounting refers to the individual facts, observations, and details that contribute to the preparation of financial statements.

S17. Ans.(a)

Sol. The loss is calculated by finding the difference between the market price and strike price, minus the premium received.

$$\text{Loss} = (\text{Market Price} - \text{Strike Price}) - \text{Premium}$$

$$\text{Loss} = (\text{₹}1,200 - \text{₹}1,000) - \text{₹}50 = \text{₹}200 - \text{₹}50 = \text{₹}150 \text{ loss}$$

Hence, the net loss for the trader is ₹150 per option.

S18. Ans.(c)

Sol. The accounting standard was initially issued in June 1981 and underwent significant revisions in 2016. The revision by the Ministry of Corporate Affairs (MCA) on 30th March 2016 applied to companies following the Companies (Accounting Standards) Rules, 2006. The revised standard became mandatory for accounting periods commencing on or after the notification date. Additionally, the Institute of Chartered Accountants of India (ICAI) revised the standard for entities other than companies, making it mandatory for accounting periods starting on or after April 1, 2017. These revisions ensure that the accounting practices across different entities in India align with the current financial reporting requirements.

S19. Ans.(b)

Sol. Statement B is correct because Sale and Lease-back transactions allow firms to sell an asset and lease it back, unlocking the value of the asset without losing operational control. Statement C is also correct as these transactions faced criticism in the 1990s due to inflated values of junk assets. Statement A is incorrect because possession typically does not change in a Sale and Lease-back; only ownership is transferred. Statement D is incorrect because in this transaction, ownership is transferred, but possession remains with the original owner, not the reverse.

S20. Ans.(a)

Sol.

S21. Ans.(d)

Sol. Using the straight-line method, the annual depreciation is calculated as:

$$\text{Annual Depreciation} = (\text{Cost of Equipment} - \text{Residual Value}) / \text{Useful Life}$$

$$\text{Annual Depreciation} = (\text{₹}3,00,000 - \text{₹}60,000) / 8 = \text{₹}30,000$$

$$\text{Depreciation for 2 years} = \text{₹}30,000 \times 2 = \text{₹}60,000$$

$$\begin{aligned} \text{Book value after 2 years} &= \text{Cost of Equipment} - \text{Accumulated Depreciation} \\ &= \text{₹}3,00,000 - \text{₹}60,000 = \text{₹}2,40,000 \end{aligned}$$

S22. Ans.(c)

Sol. Accounting helps a business entity ascertain the result of its operations by preparing either a trading and profit and loss account or an income and expenditure account. These accounts show the profit or loss of the business by matching revenue and expenditure for the same period.

S23. Ans.(a)

Sol. Under the Second Method of Lending, an enterprise is required to bring in NWC of at least 25 percent of the total current assets. Given the total current assets of ₹2,00,000, the calculation for the required NWC is as follows:

Required NWC = Total Current Assets × 25%

Required NWC = ₹2,00,000 × 0.25 = ₹50,000

Therefore, the enterprise must bring in a minimum of ₹50,000 as NWC to comply with the Second Method of Lending.

S24. Ans.(b)

Sol. Ratios are a powerful tool for **inter-firm comparison** as they help in analyzing various financial aspects of different companies. By comparing key ratios like profitability, liquidity, efficiency, and solvency, businesses can identify the factors that lead to success or failure. Ratios also provide insights into whether a firm is strong or weak, overvalued or undervalued, allowing stakeholders to make informed decisions. For example, a higher profit margin ratio could indicate a successful firm, while a lower ratio could point to inefficiencies or competitive challenges.

S25. Ans.(c)

Sol. To calculate standard costs, the first step is to calculate each sub-component in the formula. In this example, they are as follows:

1. Materials cost = ₹1000 (cost per unit) × 300 (total number of units) = ₹3,00,000

2. direct labour = ₹500 (employee hourly rate) × 5 (number of hours to produce one unit) × 300 (total number of units) = ₹7,50,000

3. manufacturing overhead = ₹1,00,000 (fixed overhead) + [₹800 (variable manufacturing overhead) × 300 (total number of units)] = ₹3,40,000

Total cost = 300000 + 750000 + 340000 = 1390000

S26. Ans.(b)

Sol. According to IFRS, which is used in many countries around the world for financial reporting by public companies, the required financial statements include:

1. **Statement of Financial Position** (similar to the Balance Sheet)
2. **Statement of Profit or Loss** (similar to the Income Statement)
3. **Statement of Comprehensive Income** (can be combined with the Statement of Profit or Loss)
4. **Statement of Changes in Equity**
5. **Statement of Cash Flows**
6. **Notes** to the financial statements, providing details such as accounting policies and additional information.

S27. Ans.(a)

Sol. A. Syndication involves sharing a long-term loan by multiple banks to mitigate risk.

Correct. Syndication is a method where multiple banks share a long-term loan to spread the risk associated with lending to a borrower.

B. It is typically used for small loans, given its complexity.

Incorrect. Syndication is generally used for large loans, not small loans.

C. The borrower mandates one bank to arrange the total loan amount, known as the Lead bank.

Correct. The borrower gives a mandate to one bank, called the Lead bank, to arrange the loan from other banks.

D. All banks involved in the syndication must appraise the loan proposal according to their policies and risk appetite.

Correct. Each bank involved in the syndication appraises the loan proposal based on their own policies and risk appetite.

S28. Ans.(b)

Sol. Under Section 32 of the Banking Regulation Act, a banking company is required to furnish three copies of its annual accounts and auditor's report to the Registrar of Companies at the same time it furnishes these documents to the Reserve Bank of India (RBI). This provision ensures simultaneous compliance with the regulatory requirements of both the RBI and the Registrar.

S29. Ans.(d)

Sol. Statement 2 is correct because a Nostro account is an account a bank holds with another bank, usually in a foreign currency.

Statement 4 is correct because a "Nostro Account" is a foreign currency account maintained by a bank at an overseas center, designated as "Our account with you."

The other statements are incorrect:

Statement 1 is incorrect because reconciliation isn't just about fixing mistakes in customer transactions; it can also identify errors in the bank's own records or ensure regulatory compliance.

Statement 3 is incorrect because Nostro accounts aren't foreign currency accounts held by customers; they're accounts held by a bank with another bank.

Statement 5 is incorrect because reconciliation involves comparing two sets of records, not just the bank's internal records with customer records.

S30. Ans.(c)

Sol. The correct answer is (c) because statements 1, 3, and 4 reflect the actual advantages of marginal costing. Statement 2 is incorrect as marginal costing does not require separate records. The necessary data for profit planning under marginal costing can be retrieved from the regular accounting records.

Statement 1: Correct. Marginal costing offers a rational approach to pricing, particularly in challenging economic conditions, as it considers variable costs and helps in setting minimum prices to cover costs.

Statement 2: Incorrect. Marginal costing does not require a separate set of records; the data for marginal costing can be extracted from regular accounting records, simplifying its use.

Statement 3: Correct. The break-even point, a critical metric for any management, is easily calculated using marginal costing, making it an essential tool for financial planning.

Statement 4: Correct. Marginal costing aids in evaluating different business segments by providing clear insights into the profitability of each, based on marginal costs and contribution margins.

S31. Ans.(a)

Sol. Interest = ₹5,00,000 * 8% = ₹40,000

Interest Tax Shield = Interest * Tax Rate

= ₹40,000 * 30%

= **₹12,000**

S32. Ans.(c)

Sol. Challans are formal documents used to make various payments to government accounts, including direct and indirect taxes and contributions to schemes like the public provident fund. They help ensure that payments are properly recorded and processed by the relevant government authorities.

S33. Ans.(b)

Sol. The Bank Reconciliation Statement (BRS) addresses timing differences by recognizing that certain transactions, such as outstanding checks and deposits in transit, can cause the balance in the company's cash book to differ from the balance in the bank statement. These timing differences occur because transactions may have been recorded in one system (the company's records) but not yet reflected in the other (the bank's records). The BRS reconciles these differences by adjusting both records, ensuring the bank statement and cash book balance align once all timing issues are accounted for.

S34. Ans.(b)

Sol. Statement 1: This is incorrect. The finance function does not stop with decision-making, organizing, and directing; it includes controlling as well.

Statement 2: This is correct. Controlling involves a continuous watch on activities to identify deviations from the approved plan.

Statement 3: This is correct. Control is essential in project execution to avoid substantial cost and time overruns, thus maintaining the project's viability.

Statement 4: This is incorrect. Budgeting, record keeping, and financial reporting are indeed part of the control function in an organization.

S35. Ans.(d)

Sol. Statement 1: Correct. Concurrent audit occurs simultaneously with or as close as possible to the occurrence of transactions.

Statement 2: Correct. The purpose of concurrent audit is to shorten the interval between a transaction and its examination by an independent person.

Statement 3: Incorrect. Concurrent audit is usually conducted by external auditors (chartered accountants) on a monthly basis, not by internal auditors on a quarterly basis.

Statement 4: Correct. Concurrent Audit involves examining and checking basic daily transactions to promptly address any irregularities, with an emphasis on substantive checking in key areas rather than test checking.

S36. Ans.(a)

Sol. After recording depreciation, both debits (depreciation expense) and credits (accumulated depreciation) increase by ₹50,000, maintaining the balance between debits and credits.

S37. Ans.(b)

Sol. Revenue expenditure decreases a company's profits because it is recorded as an expense in the profit and loss account for the current accounting period. These expenditures are related to the day-to-day operations of the business, such as rent, wages, and utility bills. Since revenue expenditure provides benefits only for the current period, it directly reduces the company's net profit for that period.

S38. Ans.(b)

Sol. The bill is drawn on 1st February 2024 for 3 months and accepted on 5th February 2024. The due date is calculated as:

Due date = 5th May 2024 + 3 days of grace = 8th May 2024.

S39. Ans.(d)

Sol. An asset is classified as current when it meets any of the following criteria:

1. Normal Operating Cycle (Statement 1): This condition refers to the expectation that the asset will be realised (converted to cash or equivalents), sold, or consumed within the entity's normal operating cycle, which is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.
2. Purpose of Trading (Statement 2): Assets held primarily for the purpose of trading are those acquired principally for the purpose of selling them in the near term.
3. Realisation within Twelve Months (Statement 3): Assets that are expected to be realised within twelve months after the reporting period also qualify as current assets. This includes receivables that are due to be settled within this period.
4. Cash and Cash Equivalents (Statement 4): Cash or cash equivalents are classified as current assets unless they are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

S40. Ans.(b)

Sol. The role of the ASB in the procedure for formulating accounting standards includes determining the broad areas where accounting standards need to be formulated and setting the priority for the selection thereof. This initial stage helps in identifying critical areas that require standardization. Moreover, the ASB is responsible for consulting with various study groups and external bodies, including government representatives, industry professionals, and other stakeholders, to ensure diverse perspectives are considered during the formulation process.

S41. Ans.(b)

Sol. Para 38A requires an entity to present, at a **minimum, two balance sheets**. This ensures that financial information for at least two comparative periods is provided. Typically, this involves presenting the current period and the immediately preceding period's balance sheet, allowing users to compare the entity's financial position over time.

S42. Ans.(b)

Sol. The concept of automated banking through Automated Teller Machines (ATMs) is a result of computerization and technological innovation.

S43. Ans.(d)

Sol. Statement 1 is incorrect: In a CDS, the protection buyer (not the risk seller) pays a premium to the protection seller for protection against credit default or any other specified credit event.

Statement 2 is incorrect: The protection buyer makes periodic payments to the protection seller until the maturity of the contract or the occurrence of a credit event, whichever comes earlier, not later.

Statement 3 is correct: A CDS is indeed a bilateral contract involving a protection buyer and a protection seller.

Statement 4 is correct: The protection seller provides coverage against losses in the value of an underlying debt instrument due to credit events.

S44. Ans.(a)

Sol. Total risk-weighted assets = ₹500 crore + ₹800 crore + ₹700 crore = ₹2,000 crore. Proportion of capital allocated to Department Y = $(\text{₹800 crore} / \text{₹2,000 crore}) \times \text{₹200 crore} = \text{₹80 crore}$.

S45. Ans.(c)

Sol. Passwords are considered sensitive and confidential information, and they should not be shared with anyone, including colleagues and IT staff. This helps in preventing unauthorized access and ensuring the security of personal and organizational data. If a password must be shared under unavoidable circumstances, it is essential that the owner changes it immediately upon the next login. This ensures that the shared password cannot be misused.

S46. Ans.(d)

Sol. The total variable cost for the batch of 140 cakes is ₹14,000 (material) + ₹8,000 (labour) + ₹6,000 (overheads) = ₹28,000. The fixed cost allocated to the batch is 10% of ₹14,000 = ₹1,400. Therefore, the total cost for the batch is ₹28,000 + ₹1,400 = ₹29,400. The cost of one cake is ₹29,400 / 140 = ₹210.

S47. Ans.(d)

Sol. The company has incurred interest expenses that are payable but not yet paid. According to the principle of recording expenses or reductions with debits and payments or increases with credits, the correct entry would be to debit the 'Interest Account' (to increase the expense) and credit the 'Lender's Account' (to increase the liability owed to the lender). This entry indicates that the company's outstanding liability to the lender has increased due to the accrued interest. When the interest is eventually paid, the 'Lender's Account' will be debited, and the 'Cash Account' will be credited to reflect the reduction in the liability and the outflow of cash.

S48. Ans.(a)

Sol. Option A: Correct. Multiple or Composite Costing is used for complex products where a single costing system is not feasible.

Option B: Incorrect. This method is used for products involving components produced at various locations, including foreign locations, not just a single location.

Option C: Correct. The total cost is ascertained by computing component costs using various relevant methods of costing.

Option D: Incorrect. Multiple or Composite Costing is applicable to industries such as motor vehicles, aircrafts, machine tools, and locomotives.

S49. Ans.(b)

Sol. A **Funds Flow Statement** focuses on the changes in working capital (current assets minus current liabilities) and explains how the company generated and utilized its funds during the accounting period.

S50. Ans.(c)

Sol. If the debit side of the Trial Balance exceeds the credit side, it indicates a possible error in either the posting of transactions or the calculation of totals. This could be due to incorrect ledger entries, missing credits, or overstated debits. The Trial Balance must balance, and any discrepancy needs to be investigated.

S51. Ans.(b)

Sol. As per Section 135 of the Companies Act, 2013, companies in India are statutorily required to spend **at least 2%** of their average net profits made during the three previous financial years on Corporate Social Responsibility (CSR) activities in the current financial year.

Explanation:

The Companies Act, 2013, mandates that companies meeting certain thresholds in terms of net worth, turnover, or net profits must allocate at least 2% of their average net profits from the last three financial years towards CSR activities. This legal obligation aims to ensure that companies contribute to social and environmental causes, which could include education, poverty alleviation, environmental sustainability, healthcare, and more. Companies are also required to disclose their CSR spending and activities in the annual report of the Board of Directors, ensuring transparency.

S52. Ans.(d)

Sol. Simple Interest (SI) = (Principal × Rate × Time) / 100

Given:

Principal (P) = Rs. 7,000

Rate (R) = 10% per annum

Time (T) = 2 years

SI = $(7,000 \times 10 \times 2) / 100$

SI = $(140,000) / 100$

SI = Rs. 1400

S53. Ans.(a)

Sol. **Office Furniture** is a suitable asset for the **Straight Line Method** of depreciation because it tends to provide consistent utility over its useful life. Unlike equipment such as oil rigs or vehicles that may experience variable wear and tear depending on usage, office furniture depreciates at a relatively steady rate. The Straight Line Method is ideal for assets that have predictable performance and usage over time.

S54. Ans.(c)

Sol. The inventories should be classified as raw materials, work-in-progress, finished goods, stock-in-trade, stores and spares, loose tools, and others (specifying the nature). Intangible assets are not included in these classifications.

S55. Ans.(b)

Sol.

S56. Ans.(b)

Sol. Statements A, B, and C are correct. The Turnover Method, Cash Flow Method, and Operating Cycle Method are three common approaches for assessing working capital needs. Statement D is incorrect because working capital is typically financed through short-term financing, not long-term financing, and the capital adequacy ratio is not a key consideration for working capital.

S57. Ans.(c)

Sol. The amount of TDS is calculated as follows:

$$\text{TDS} = \text{Payment} \times \text{TDS Rate}$$

$$\text{TDS} = ₹5,00,000 \times 10\% = ₹50,000$$

Hence, the TDS deducted by the company is ₹50,000.

S58. Ans.(b)

Sol. Share capital is classified into authorized capital, issued capital, subscribed capital, called up capital, and paid-up capital. This classification reflects the different stages of the capital's lifecycle, from authorization by the company's charter to actual payment by shareholders.

S59. Ans.(c)

Sol. Non-cash transactions should be **disclosed elsewhere** in the financial statements, typically in the **notes** to ensure transparency. While these transactions impact the company's financial position, they do not affect the actual cash flow, and thus are excluded from the cash flow statement itself.

- **(a)** Incorrect, as non-cash transactions are excluded from the cash flow statement.
- **(b)** Incorrect, they are not included in the cash flow statement but are disclosed separately.
- **(c)** Correct, non-cash transactions must be reported, but not in the cash flow statement.
- **(d)** Incorrect, non-cash transactions must still be reported to provide a full picture of the company's financial activities.

S60. Ans.(a)

Sol. A Bill of Exchange is an order from the drawer to the drawee to pay a specified sum of money to the payee. In contrast, a Promissory Note is a promise made by the drawee (or maker) to pay the payee a certain amount. In a Bill of Exchange, the drawer instructs the drawee to make the payment, whereas in a Promissory Note, the drawee assumes the responsibility of payment directly, without being ordered by another party.

S61. Ans.(a)

Sol. Capital expenditure is that expenditure whose benefit is enjoyed or consumed **in one** year(s) but over **many years**. It results in the **purchase** or acquisition of **assets** which may be used for many years. The main purpose of such expenditure is to earn **income** over a period of years or to increase the **earning capacity** of the business concern with the aid of benefits acquired from such expenditure.

S62. Ans.(c)

Sol.

- **Statement 1** is incorrect because the journal records every transaction, not just complex and irregular ones. It is essential for daily entries as well.
- **Statement 2** is correct. It accurately describes the function of the journal in the accounting process, where transactions are recorded in chronological order before being transferred to specific ledgers. This practice helps in maintaining an organized and systematic recording of financial transactions.
- **Statement 3** is incorrect. In modern accounting, specialized journals are commonly used to categorize and streamline the recording of specific types of transactions, such as sales, purchases, cash receipts, and cash disbursements. This makes the accounting process more efficient.

S63. Ans.(b)

Sol. The doctrine of stewardship, which mandates the disclosure of financial information to shareholders through annual reports, reflecting the limited liability of shareholders and the legal requirements of company operations.

S64. Ans.(a)

Sol. Issuing additional equity increases the company's total equity, and assets increase by the same amount, while liabilities remain unchanged. This ensures the balance sheet equation remains balanced.

S65. Ans.(a)

Sol. Statement 1 accurately describes the purpose of the payback method, which is to measure the time it takes for the receipts from an investment to repay its cost. Statement 2 correctly states that the payback method can rank mutually exclusive projects by selecting those with the shortest payback period. However, Statement 3 is incorrect because the payback method does not consider the time value of money, which is one of its limitations.

S66. Ans.(b)

Sol. The defining feature of a cheque, as per Section 6 of the Negotiable Instruments Act, is that it is a special type of bill of exchange that is always drawn upon a specified banker and is payable on demand. This differentiates it from other negotiable instruments, which may not necessitate being drawn upon a banker or being payable on demand.

S67. Ans.(c)

Sol. Closing entries transfer the balances of revenue and expenses to the **Profit and Loss Account**. For revenue:

- **Debit Revenue Account** (Income) ₹1,00,000 – to close the revenue account.
- **Credit Profit and Loss Account** (Income Statement) ₹1,00,000 – to transfer the income to the profit and loss statement.

The **closing entry** for expenses will be:

- **Debit Profit and Loss Account** ₹80,000 and Credit Expenses Account ₹80,000.

S68. Ans.(b)

Sol. Investments in debentures and bonds, unless specified under particular government or financial institution categories, must be disclosed under the 'Debentures and Bonds' section of the financial statements. This ensures that these financial assets are distinguished from other types of investments like equity shares or government securities. Accurate classification is crucial for reflecting the company's investment strategy and for compliance with reporting standards.

S69. Ans.(b)

Sol. The assumption of going concern is important because it allows the business to report unused resources at cost rather than market values. This means that the business is viewed as a mechanism for adding value to the resources it uses, with success measured by the difference between output values (sales or revenues) and input values (expenses).

S70. Ans.(b)

Sol. Credit risk refers to the possibility that borrowers may default on their loan obligations, and it is one of the key areas auditors evaluate during the inspection of a bank's loan portfolio. The auditor assesses the adequacy of provisions made for non-performing assets (NPAs) and the bank's adherence to credit risk management guidelines.

S71. Ans.(b)

Sol. The principle of a company being an artificial person allows a member to sign a contract with the company as a separate legal entity. This means that the company, being distinct from its members, can engage in legal actions and own properties independently.

S72. Ans.(d)

Sol. The popularity of Electronic/Online Payment methods is mostly because banks and payment service providers are making it easier. They've created user-friendly platforms like mobile wallets and online payment gateways, which make transactions convenient and safe. Things like speed, how easy it is to use, and being able to use them on digital platforms have made more people use them. Also, lots of people having smartphones and internet access makes these payment methods easier to use. While having fewer middlemen and collaborations between merchants and banks help, it's mostly because banks are providing better services and making it more convenient for people to use electronic payments.

S73. Ans.(c)

Sol. GST amount = $(18/100) \times ₹20,000$

GST amount = $0.18 \times ₹20,000$

GST amount = ₹3,600

Total price = Product price + GST amount

Total price = ₹20,000 + ₹3,600

Total price = ₹23,600

Correct Answer: C) ₹3,600; ₹23,600

S74. Ans.(c)

Sol. $P = (350 \times 4000) - [1,50,000 + (200 \times 4000)]$

$P = 14,00,000 - [1,50,000 + 8,00,000]$

$= 14,00,000 - [1,50,000 + 8,00,000]$

$P = 14,00,000 - 9,50,000$

$P = ₹4,50,000$

S75. Ans.(b)

Sol. Statement A: Expenditures on power and fuel must be combined with those on repairs to machinery.

This statement is incorrect. The expenditures on power and fuel are reported separately from those on repairs to machinery.

Statement B: The expenditure incurred on the consumption of stores and spare parts is reported separately from expenditures on rent and repairs to buildings.

This statement is correct. The text specifies that expenditures on different items such as the consumption of stores and spare parts, rent, and repairs to buildings should be reported separately.

Statement C: The classification excludes the reporting of expenditures on repairs to machinery.

This statement is incorrect. The classification includes the reporting of expenditures on repairs to machinery as one of the specified items.

Statement D: Reporting requires separate expenditures for items like power and fuel, rent, and repairs to buildings.

This statement is correct. The text clearly states that expenditures on items like power and fuel, rent, and repairs to buildings should be reported separately.

S76. Ans.(b)

Sol. In the sum-of-the-years'-digits method, the depreciation is calculated by applying a fraction to the depreciable amount. The sum of the years' digits for 5 years is:

Sum of digits = $1 + 2 + 3 + 4 + 5 = 15$

For the first year, the fraction applied is:

Depreciation for the first year = $(5/15) \times ₹2,00,000 = ₹66,667$.

S77. Ans.(c)

Sol. In ledger postings, the term "To" is customarily used for accounts that appear on the debit side of a ledger account, indicating that the particular account is being debited. Conversely, the term "By" is used for accounts that appear on the credit side of the ledger account, indicating that the account is being credited. This standard practice helps in maintaining clarity and consistency in financial records.

S78. Ans.(b)

Sol. Keeping a written or electronic copy of a password in an easily locatable place **increases the risk of unauthorized access** to sensitive systems. Passwords should be stored securely to ensure that they cannot be easily found or misused.

Explanation:

Passwords are the first line of defense for protecting sensitive banking systems. Writing down or storing passwords in an unsecured location makes them easily accessible to unauthorized individuals, putting sensitive data at risk. Secure password storage, such as through password managers or by scrambling written passwords, minimizes the chance of someone accessing the information without permission. This practice aligns with IT security standards to prevent unauthorized breaches.

S79. Ans.(a)

Sol. 1. This statement is **not correct**. The increase should be credited directly to owners' interests under revaluation surplus unless it reverses a revaluation decrease of the same asset previously recognized in the Statement of Profit and Loss. In such cases, it is recognized in the Statement of Profit and Loss.

2. This statement is **correct**. If the revaluation increase reverses a prior revaluation decrease of the same asset that was recognized in the Statement of Profit and Loss, the increase should indeed be recognized in the Statement of Profit and Loss.

3. This statement is **not correct**. While a decrease in an asset's carrying amount due to revaluation is generally recognized in the Statement of Profit and Loss, if there is a credit balance existing in the revaluation surplus for that asset, the decrease should first be debited directly to owners' interests under the revaluation surplus to the extent of that credit balance.

4. This statement is **correct**. If a revaluation decrease reverses a previous revaluation increase that was recognized under revaluation surplus, the decrease should be debited directly to owners' interests under the revaluation surplus to the extent of any existing credit balance for that asset.

S80. Ans.(b)

Sol. The customer's account is **debited** for bank charges incurred for services like the collection of outstation cheques, issuing cheque books, or any payments made as per standing instructions. These charges represent an expense for the customer and are deducted from their account, thus reducing the balance. Banks typically debit the account automatically when such charges are applied.

S81. Ans.(b)

Sol. Statement 1: The Trading Account is essential for the preparation of the Profit and Loss Account.

False. While the Trading Account is commonly prepared, it is not a necessary step for the preparation of the Profit and Loss Account. Many accountants prefer to prepare it, but it is not mandatory.

Statement 2: The Trading Account includes only the direct costs associated with the materials in which the firm is dealing.

True. The Trading Account takes into account only the direct costs related to the materials the firm deals with, excluding operating costs.

Statement 3: The Trading Account calculates the 'Cost of Goods Sold' to determine 'Gross Profit'.

True. The purpose of the Trading Account is to calculate the 'Cost of Goods Sold' and subtract it from Revenue to arrive at 'Gross Profit'.

Statement 4: The Trading Account includes operating costs such as salaries and rent.

False. Operating costs like salaries and rent are not included in the Trading Account. These costs are accounted for in the Profit and Loss Account.

S82. Ans.(b)

Sol. A Nostro Account refers to an account maintained by an Indian bank with its own branches located abroad. This type of account is used to facilitate the handling of foreign currency transactions and ensure smooth operations for international banking activities. It essentially helps in managing and reconciling foreign exchange transactions by allowing the bank to hold and transact in foreign currencies directly through its overseas branches.

S83. Ans.(d)

Sol. In entities where internal audit is not a specialized function and not managed by career internal auditors, the recommended minimum tenure for the Head of Internal Audit (HIA) is three years. This period allows for continuity and the effective implementation of internal audit strategies and processes.

S84. Ans.(b)

Sol. The going concern principle assumes that a business will continue its operations for the foreseeable future, usually considered to be at least **1 year**. This principle is crucial for preparing financial statements because it affects the valuation of assets and liabilities. If a company is unable to continue as a going concern, it must adjust its financial statements based on **fair value** rather than historical cost, leading to a significant impact on the reported **expenses**.

S85. Ans.(c)

Sol. GST is expected to make Indian trade and industry more competitive by reducing the cost of production and inflation. GST will also help in developing a seamless Indian market, significantly enhancing **economic growth**.

S86. Ans.(c)

Sol. The primary function of the Money Market is to offer short-term funding and liquidity to financial institutions. This market involves the trading of short-term financial instruments with maturities of one year or less. It is crucial for managing short-term funding needs and maintaining liquidity in the financial system.

S87. Ans.(c)

Sol. The **Historical Cost Concept** states that assets should be recorded at their original purchase price rather than their current market value. This creates a historical record of all business transactions. For example, if a trader purchases business premises for ₹5,00,000, the amount paid is recorded in the books as the original cost. The idea is to base financial reporting on objective, verifiable data. Other concepts like the Going Concern Concept and Matching Concept serve different purposes, but the recording of past transactions aligns specifically with the Historical Cost Concept.

S88. Ans.(a)

Sol. The Written Down Value Method calculates depreciation on the reduced book value.

Year 1: Depreciation = ₹100,000 × 20% = ₹20,000.

Book Value at the end of Year 1 = ₹100,000 - ₹20,000 = ₹80,000.

Year 2: Depreciation = ₹80,000 × 20% = ₹16,000.

S89. Ans.(b)

Sol. The correct answer is **Only B, C, D** because these statements accurately reflect the nuances of the term loan disbursement process.

- **Statement A** is incorrect because there are exceptions to the requirement of margin deposit, as mentioned in the case of personal or consumption loans, where the loan amount may be directly credited to the borrower's account.
- **Statement B** is correct, as the general procedure involves the bank paying the loan amount directly to the buyer of the asset, ensuring the loan is used for the intended purpose.
- **Statement C** is correct, as it acknowledges that if the borrower has already made some payments toward the purchase, and if verified, this can be counted as part of their margin contribution.
- **Statement D** is also correct because it highlights that in exceptional cases, such as personal or consumption loans, the loan may be credited to the borrower's account rather than being remitted to a third party like a seller.

S90. Ans.(a)

Sol.

- **Balance as per Cash Book** = ₹ 25,000
- **Subtract cheques deposited but not credited** = ₹ 25,000 - ₹ 3,800 = ₹ 21,200
- **Add cheques issued but not presented** = ₹ 21,200 + ₹ 3,500 = ₹ 24,700

Therefore, the balance as per the **Pass Book** is **₹ 24,700**.

S91. Ans.(b)

Sol. Statement B is correct because **LLPs** are separate legal entities, and the liability of partners is limited to their agreed contribution, combining elements of both corporate and partnership structures. Statement C is correct as both **Firms and LLPs** are taxed at the same flat rate of **30%**.

Statement D is correct because while a Firm is **not a legal entity** under partnership law, it is treated as a separate entity for **income tax and GST** purposes.

Statement A is incorrect because a Firm is not considered a separate legal entity under partnership law, but for tax purposes, it **is** treated as a separate entity.

S92. Ans.(b)

Sol. The trial balance is not balanced, indicating a difference of ₹5,000 (₹4,50,000 - ₹4,45,000). Since the debit side is greater, the suspense account will show a credit balance of ₹5,000.

S93. Ans.(c)

Sol. Solvency ratios, often called Long-term Solvency Ratios, provide insights into a company's long-term financial stability. They analyze the firm's ability to meet long-term liabilities, ensuring the company can sustain its operations over an extended period.

S94. Ans.(d)

Sol. Balance as per Cash Book = ₹18,500

- Less: Bank charges recorded only in the Pass Book = ₹300
- Less: Dishonored cheque = ₹1,500
- Add: Interest credited by the bank = ₹400

Adjusted balance as per Cash Book = ₹18,500 - ₹300 - ₹1,500 + ₹400 = ₹17,100

Therefore, the correct option based on the solution is ₹17,100.

S95. Ans.(a)

Sol. Nowadays, banks that use core banking solutions (CBS) do their reconciliation through a central computer system. Banks with CBS use this technology to make the process of checking and matching inter-branch accounts more streamlined. This method uses technology to handle and fix differences between accounts, making the reconciliation process more orderly and automated. This not only makes the process quicker but also more accurate.

S96. Ans.(a)

Sol. Subsequent costs, including costs for parts requiring regular replacement and major inspections, should generally be capitalized if they extend the asset's useful life or enhance its capacity, thereby providing future economic benefits beyond the originally assessed standards. If such costs merely maintain the asset's existing level of performance without enhancing its capabilities or extending its life, they should be expensed as incurred. This accounting treatment aligns with the principle that capital expenditures should result in future economic benefits, while expenses are matched with the period in which they are incurred.

S97. Ans.(c)

Sol. When there are no controls on capital flows, the most dominant factor in determining forward points is the interest rate differential between the two currencies. This is because it represents the trade-off between the interest earned on one currency and the opportunity foregone to earn interest on another currency. This interest rate differential becomes the primary driver of forward points in such scenarios.

S98. Ans.(b)

Sol. Proper documentation in the context of banks' risk-based internal audit frameworks ensures that the framework captures all significant criteria and principles relevant to the bank's organizational structure, business model, and risks. This helps demonstrate compliance and effectiveness in managing risk.

S99. Ans.(c)

Sol. When financial decisions are made in an organization, they lead to financial transactions that are recorded using accounting. For instance, if a company issues equity to the public, it records this as a credit to the capital account and a debit to the bank account. Similarly, if the company buys a machine, it records this as a debit to the fixed assets account and a credit to the cash or bank account.

S100. Ans.(b)

Sol.

1. This statement is incorrect. Derivatives require little or no initial net investment compared to other types of contracts having a similar response to changes.
2. This statement is correct. The value of derivatives changes in response to the change in a specified 'underlying' asset.
3. This statement is incorrect. The provided text states that derivatives are complex in their pricing and trading mechanisms and have the characteristic of high leverage.
4. This statement is correct. It is mentioned that derivatives are settled at a future date.