

Question Paper
Financial Accounting – II (MB132): July 2008

- Answer all 70 questions.
- Marks are indicated against each question.

Total Marks : 100

1. The statement of changes in financial position is also called as <Answer>
- (a) Profit and Loss account
 - (b) Profit and Loss Appropriation account
 - (c) Proforma statement
 - (d) Balance sheet
 - (e) Funds flow statement. (1 mark)
2. The time interval between the dates of balance sheets of the holding company and subsidiary company should not be more than <Answer>
- (a) Three months
 - (b) Five months
 - (c) Four months
 - (d) Six months
 - (e) Two months. (1 mark)
3. In the books of the holding company, the minority interest shall be <Answer>
- (a) Debited to the consolidated profit and loss account
 - (b) Credited to the consolidated profit and loss account
 - (c) Shown on the liability side of the consolidated balance sheet
 - (d) Deducted from the share capital in the consolidated balance sheet
 - (e) Shown on the asset side of the consolidated balance sheet. (1 mark)
4. Parent Company reported a net profit of Rs.3,00,000 and shareholders' equity of Rs.10,00,000. Subsidiary Company reported post-acquisition profit of Rs.2,00,000 and shareholders' equity of Rs.5,00,000. Parent Company owns 75% of the Subsidiary Company's equity shares. The consolidated financial statements reported <Answer>
- (a) Net profit of Rs.5,00,000
 - (b) Net profit of Rs.4,50,000
 - (c) Share Capital of Rs.15,00,000
 - (d) Share Capital of Rs.13,75,000
 - (e) Net profit of Rs.3,75,000. (2 marks)
5. The company which acquires more than 51% of the shares/control of another company is known as <Answer>
- (a) Subsidiary company
 - (b) Holding company
 - (c) Transferor company
 - (d) Foreign company
 - (e) Minority group. (1 mark)
6. Which of the following can be classified as capital reserve? <Answer>
- (a) A sum set aside from profits to provide for repayment of debentures
 - (b) The surplus arising on a professional revaluation of fixed asset
 - (c) An amount set aside from profits to provide for the increased cost of replacement of fixed asset
 - (d) A sum set aside from profits towards a special publicity campaign which is to be started in the following year
 - (e) A sum retained to provide for loss that may arise out of doubtful debts. (1 mark)
7. The credit given by the suppliers of goods are <Answer>
- (a) Long-term source of funds
 - (b) Short-term use of funds
 - (c) Short-term source of funds
 - (d) Cannot be regarded as source of funds
 - (e) Long-term use of funds. (1 mark)

8. Acid-test ratio can be classified as a [<Answer>](#)
- (a) Liquidity ratio
 - (b) Ownership ratio
 - (c) Leverage ratio
 - (d) Activity ratio
 - (e) Capital gearing ratio.
- (1 mark) [<Answer>](#)
9. In funds flow statement prepared on working capital basis, redemption of debentures is [<Answer>](#)
- (a) Source of funds
 - (b) Use of funds
 - (c) Increase in working capital
 - (d) Decrease in current liability
 - (e) Does not effect the funds flow statement.
- (1 mark) [<Answer>](#)
10. One of the common tools used by the management to facilitate financial analysis is [<Answer>](#)
- (a) Ratio analysis
 - (b) Balance sheet
 - (c) Trial balance
 - (d) Profit and Loss Appropriation account
 - (e) Bank reconciliation statement.
- (1 mark) [<Answer>](#)
11. Which of the following transactions results in a decrease of working capital? [<Answer>](#)
- (a) Issue of shares for cash
 - (b) Take over of long-term investments by creditors
 - (c) Stock sold at 20% below cost for cash
 - (d) Machinery purchased in exchange of debentures
 - (e) Preliminary expenses written-off.
- (1 mark) [<Answer>](#)
12. Dividends can be paid only in the form of [<Answer>](#)
- (a) Cash
 - (b) Right shares
 - (c) Debentures
 - (d) Bonus shares
 - (e) Preference shares.
- (1 mark) [<Answer>](#)
13. The price payable by the transferee company to the transferor company for the net assets taken over is known as [<Answer>](#)
- (a) Nominal value
 - (b) Minority interest
 - (c) Purchase consideration
 - (d) Goodwill
 - (e) Capital reserve.
- (1 mark) [<Answer>](#)
14. Uncalled liability on shares partly paid is shown [<Answer>](#)
- (a) As a current liability in the balance sheet of a company
 - (b) As a miscellaneous expenditure in the balance sheet of a company
 - (c) Under the head 'reserves' on the liabilities side of the balance sheet of a company
 - (d) By way of notes to the balance sheet of a company
 - (e) In the Profit and Loss account of a company.
- (1 mark) [<Answer>](#)
15. No disclosure is required in consolidated financial statements in respect of [<Answer>](#)
- (a) Dividend declared by holding company
 - (b) Capital reserve of holding company
 - (c) Inter-company transactions
 - (d) Goodwill
 - (e) Minority interest.
- (1 mark) [<Answer>](#)
16. Which of the following is **not** shown under the head 'fixed assets' in the balance sheet of a company? [<Answer>](#)
- (a) Building
 - (b) Leasehold properties
 - (c) Railway Sidings
 - (d) Livestock
 - (e) Stores and spare parts.
- (1 mark)

17. Which of the following **does not** appear under the head 'investments' in the balance sheet of a company? <Answer>
- (a) Investments in Government or Trust Securities
 - (b) Investments in shares, debentures or bonds
 - (c) Accrued interest on investments
 - (d) Investments in the capital of partnership firms
 - (e) Investments in the shares of subsidiary companies. (1 mark)
18. A debt-asset ratio of 0.61 of a firm implies <Answer>
- (a) 61% of debt is yet to be repaid from the assets
 - (b) 61% of total assets are financed from debt sources
 - (c) 61% of the current assets are financed from debt
 - (d) 61% of the debt is already repaid from the assets
 - (e) 61% of the debt is used for financing fixed assets. (1 mark)
19. Which of the following is **not** a current liability in the balance sheet of a company? <Answer>
- (a) Bills payable
 - (b) Bank overdraft
 - (c) Advances recoverable
 - (d) Unclaimed dividend
 - (e) Declared dividend. (1 mark)
20. Which of the following is a subjective method of estimating the future sales? <Answer>
- (a) Trend Analysis
 - (b) Extrapolation
 - (c) Sales Force Estimates
 - (d) Regression Analysis
 - (e) Sustainable Growth Rate. (1 mark)
21. Which of the following will **not** form part of 'Miscellaneous Expenditure' shown in balance sheet of a company? <Answer>
- (a) Preliminary expenses
 - (b) Underwriting expenses
 - (c) Loss on sale of fixed assets
 - (d) Discount on issue of shares
 - (e) Interest paid out of capital during construction. (1 mark)
22. The purpose of internal reconstruction is <Answer>
- (a) To bring about a merger
 - (b) To bring about combination
 - (c) To acquire another company
 - (d) To float a new company to take over the business of an old company
 - (e) To re-organize an over capitalized company. (1 mark)
23. The amount of proposed dividend out of pre-acquisition profits of the subsidiary company belonging to the holding company is <Answer>
- (a) Deducted from the cost of control
 - (b) Added to the cost of control
 - (c) Shown under 'proposed dividend in the consolidated balance sheet
 - (d) Credited to the investment account of the holding company
 - (e) Credited to the consolidated profit and loss account. (1 mark)
24. Which of the following is treated as revenue profits by the holding company at the time of preparation of consolidated balance sheet? <Answer>
- (a) Profits arising out of inter-company transactions
 - (b) Reserves of the subsidiary company up to the date of acquisition
 - (c) Current year profit of subsidiary company up to the date of acquisition
 - (d) The profit on the revaluation of assets during acquisition
 - (e) Profits earned by the subsidiary company after the date of acquisition. (1 mark)
25. Dividend yield would be directly affected by <Answer>
- (1 mark)

- (a) Retention ratio
 (b) Book value per share
 (c) Nominal value of a share
 (d) The cost of equity capital
 (e) Debt-equity ratio. [<Answer>](#)
26. A proposed dividend becomes a current liability from the [<Answer>](#)
- (a) Date of record
 (b) Date of payment
 (c) Date of declaration
 (d) Date of distribution
 (e) Date of proposal by the Board of Directors. (1 mark)
27. Which of the following statements is **false**? [<Answer>](#)
- (a) A bill drawn by the holding company and accepted by its subsidiary company is an outside obligation for holding company
 (b) A consolidated balance sheet shows the assets and liabilities of the holding company and its subsidiaries
 (c) A holding company can acquire control over its subsidiary company by controlling the composition of board of directors of the subsidiary company
 (d) A subsidiary company is excluded from consolidation, if the control is intended to be temporary
 (e) A group is a parent and all its subsidiaries. (1 mark)
28. The dividend that can be declared by the Board of Directors between two annual general meetings of the company is called as [<Answer>](#)
- (a) Proposed dividend
 (b) Final dividend
 (c) Interim dividend
 (d) Declared dividend
 (e) Unpaid dividend. (1 mark)
29. Which of the following is a liquidity ratio? [<Answer>](#)
- (a) Interest coverage ratio
 (b) Return on investment
 (c) Quick ratio
 (d) Debt-equity ratio
 (e) Debt-asset ratio. (1 mark)
30. The financial ratios are compared with the industry averages to assess whether the financial ratios are within the limits. This type of analysis is called [<Answer>](#)
- (a) Trend analysis
 (b) Common size analysis
 (c) Cross-sectional analysis
 (d) Time-series analysis
 (e) Index analysis. (1 mark)
31. The ability of a firm to pay its dues to the financial institutions is indicated by [<Answer>](#)
- (a) Inventory turnover ratio
 (b) Accounts receivable turnover ratio
 (c) Asset turnover ratio
 (d) Debt service coverage ratio
 (e) Average collection period. (1 mark)
32. If the current ratio of Zeenath Ltd., is 5:3, which of the following transactions would reduce it? [<Answer>](#)
- (a) Payment of a current liability
 (b) Sale of a motor car for cash
 (c) Purchase of stocks for cash
 (d) Purchase of fixed asset for cash
 (e) Issue of new shares for cash. (1 mark)
33. The return on equity is used as a measure of [<Answer>](#)
- (a) Profitability of equity funds invested in the firm
 (b) Liquidity of the current assets of the firm (1 mark)
 (c) Margin of net profit on sales

- (c) Margin of net profit on sales
 (d) Long term solvency of the firm
 (e) Debt servicing capacity of the firm. <Answer>
34. Gross profit ratio can be calculated from the <Answer>
- (a) Income statement
 (b) Balance Sheet
 (c) Funds flow statement
 (d) Cash flow statement
 (e) Directors' report. (1 mark) <Answer>
35. The asset which is **not** considered when computing the purchase consideration under the net assets method is <Answer>
- (a) Furniture
 (b) Preliminary Expenses
 (c) Stock
 (d) Cash
 (e) Debtors. (1 mark) <Answer>
36. Which of the following items could appear in a company's cash flow statement? <Answer>
- (a) Proposed dividends
 (b) Forfeiture of shares
 (c) Bonus issue of shares
 (d) Repayment of loan
 (e) Conversion of debentures into equity shares. (1 mark) <Answer>
37. Which of the following can be classified as leverage ratio? <Answer>
- (a) Debt-equity ratio
 (b) Inventory turnover ratio
 (c) Dividend pay-out ratio
 (d) Quick ratio
 (e) Gross profit margin ratio. (1 mark) <Answer>
38. Which of the following receipts is **not** included in the profits for the purpose of calculating managerial remuneration? <Answer>
- (a) Bounties received from the Government
 (b) Subsidies received from the public authority authorized on behalf of Government
 (c) Bounties received from the public authority authorized on behalf of Government
 (d) Subsidies received from the Government
 (e) Profits on sales of forfeited shares by the company. (1 mark) <Answer>
39. Low assets turnover may indicate <Answer>
- (a) Large investments in assets
 (b) Low costs of maintenance
 (c) Assets are not used properly to their full capacity levels
 (d) Higher sales to the given assets
 (e) Moderate sales to the given assets. (1 mark) <Answer>
40. Which of the following is a source of funds while carrying out funds flow analysis on total resources basis? <Answer>
- (a) Redemption of preference share capital
 (b) Installation of a capital asset
 (c) Conversion of debentures into equity shares
 (d) Selling an old car today in order to buy a new one after one year
 (e) Buy back of equity shares. (1 mark) <Answer>
41. On January 01, 2008, Rat Ltd., acquired 80% shares of Spiral Ltd. If the profit on revaluation of assets of Spiral Ltd., is Rs.5,00,000, the share of minority group shown in revaluation profit was <Answer>
- (a) Rs. 80,000
 (b) Rs. 40,000
 (c) Rs.1,00,000
 (d) Rs. 75,000
 (e) Nil. (2 marks)

(e) Nil.

42. The following information was furnished by Alliance Ltd.:

[<Answer>](#)

Earnings per share	Rs. 10
Number of outstanding equity shares	45,000
Market price of each equity share	Rs.100

The capitalization rate was

- (a) 1.00%
- (b) 10.00%
- (c) 0.20%
- (d) 0.02%
- (e) 2.22%.

(2marks)

43. XRD Ltd., furnished the following information:

[<Answer>](#)

Price earning ratio of the equity share	2.5
Net income available for equity shareholders	Rs. 1,50,000
Number of outstanding equity shares	1,000

The market price of the equity share was

- (a) Rs.310
- (b) Rs.320
- (c) Rs.375
- (d) Rs.120
- (e) Rs. 60.

(2marks)

44. Anwar Ltd., furnished the following information for the year ended March 31, 2008:

[<Answer>](#)

Particulars	Rs.
Opening balance of Profit & Loss Appropriation account	50,000
Dividends paid during the year	45,000
Transfers to reserves	1,72,500
Excess provision for income tax in the year 2006-07	10,000
Current year net profit	2,50,000

The amount of profit/loss transferred to balance sheet was

- (a) Rs. 92,500
- (b) Rs.1,02,500
- (c) Rs.1,62,500
- (d) Rs. 97,500
- (e) Rs.3,10,000.

(2marks)

45. Hero Cycles Ltd., acquired 85% shares of Villan Cycles Ltd., for Rs.75,000. The balance sheet of Villan Ltd., as on March 31, 2008 was as follows:

[<Answer>](#)

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed assets	72,000
Equity shares of Rs.10 fully paid-up	80,000	Current assets	28,000
Current liabilities	20,000		
Total	1,00,000		1,00,000

The amount of goodwill to be shown in the consolidated balance sheet prepared by Hero Cycles Ltd., as on March 31, 2008 was

- (a) Rs. 7,000
- (b) Rs. 5,000
- (c) Rs. 3,000
- (d) Rs. 2,500
- (e) Rs. 7,500.

(2marks)

46. Consider the following data regarding Delta Ltd.:

[<Answer>](#)

Total assets	Rs. 54 lakh
Fixed operating costs	Rs. 26 lakh
Total assets turnover ratio	1.72

(2marks)

The sales of the company was

- (a) Rs. 92,88,000
- (b) Rs. 44,72,000
- (c) Rs. 48,16,000
- (d) Rs.1,37,60,000
- (e) Rs. 46,51,162.

[<Answer>](#)

47. Charminar Ltd., acquired assets worth Rs.7,50,000 and took over liabilities worth Rs.2,25,000 from Kutubminar Ltd., by issue of shares of Rs.50 at par. The number of shares to be issued by Charminar Ltd., to settle the purchase consideration was

- (a) 4,500 shares
- (b) 10,500 shares
- (c) 15,000 shares
- (d) 12,500 shares
- (e) 19,500 shares.

(2 marks)

[<Answer>](#)

48. Bengal Ltd., acquired the shares of Barakar Ltd. The closing stocks of two companies were Rs.22,000 and Rs.36,000 respectively. Closing stock of Bengal Ltd., included goods worth Rs.1,200 purchased from Barakar Ltd. Barakar Ltd., sells goods at a profit of 20% on sales. The net amount of closing stock appearing in the consolidated balance sheet was

- (a) Rs.57,760
- (b) Rs.57,800
- (c) Rs.58,200
- (d) Rs.58,000
- (e) Rs.58,500.

(2 marks)

[<Answer>](#)

49. Jupon Ltd., has furnished the following data for the year ended March 31, 2008:

Particulars	Rs.
Sales	30,00,000
Average inventory	5,00,000
Gross profit	12,00,000

Inventory turnover ratio of Jupon Ltd., for the year ended March 31, 2008 was

- (a) 3.60 times
- (b) 6.00 times
- (c) 2.40 times
- (d) 1.67 times
- (e) 2.00 times.

(2 marks)

[<Answer>](#)

50. The reserves and surplus of Rahim Ltd., at the beginning of the accounting year was Rs.1,00,000. During the year the company made profit and appropriated the same as follows:

Particulars	Rs.
Transfer to General Reserves	1,00,000
Balance of the profit carried forward to balance sheet	2,50,000

The amount shown under 'Reserves and Surplus' in the balance sheet at the end of the year was

- (a) Rs.2,00,000
- (b) Rs.2,50,000
- (c) Rs.4,50,000
- (d) Rs.3,50,000
- (e) Rs.1,00,000.

(2 marks)

[<Answer>](#)

51. Randhir Ltd., furnished the following information for the year 2007-08:

Particulars	Rs.
Opening balance of accounts receivable	90,000
Closing balance of accounts receivable	1,00,000
Net credit sales	3,80,000

The accounts receivable turnover ratio was

- (a) 4.0 times
- (b) 4.5 times
- (c) 4.2 times
- (d) 1.1 times
- (e) 3.8 times.

(2 marks)

[<Answer>](#)

52. Keya Ltd., furnished the following information:

	Rs.
Cost of goods sold	3,00,000
Gross sales	5,50,000
Sales return	50,000

The gross profit margin is

- (a) 35%
- (b) 60%
- (c) 40%
- (d) 50%
- (e) 45%.

(2 marks)

[<Answer>](#)

53. The gross profit and the administrative expenses of Payal Ltd., for 2006-07 was Rs.3,00,000 and Rs.2,00,000 respectively. In 2007-08 the gross profit increased by 20% and administrative expenses also increased by 10%. If the sales during 2007-08 were Rs.8,00,000, the net profit margin for the year 2007-08 was

- (a) 17.50%
- (b) 12.50%
- (c) 6.25%
- (d) 4.50%.
- (e) 3.75%.

(2 marks)

[<Answer>](#)

54. Saati Ltd., furnishes the following information:

Particulars	Rs.
Balance of Profit & Loss account as on April 01, 2007	4,00,000
Net profit for the year ended 2007-08	4,50,000

Kiron Ltd., acquired 85% of shares of Saati Ltd., on December 01, 2007. The amount credited to capital reserve in the consolidated balance sheet was

- (a) Rs.5,95,000
- (b) Rs.8,50,000
- (c) Rs.1,50,000
- (d) Rs.7,22,500
- (e) Rs.7,00,000.

(2 marks)

[<Answer>](#)

55. The information given below is extracted from the books of Epsilon Ltd.:

Number of shares	12,000
Dividend Per Share	Rs.5
Net income available to shareholders	Rs.2,40,000

The dividend pay-out ratio was

- (a) 0.10
- (b) 0.25
- (c) 0.22
- (d) 0.40
- (e) 0.26.

(2 marks)

56. If the earning power of a firm is 0.6, the average of total assets are Rs.40,000, then earnings before interest and taxes are

[<Answer>](#)

- (a) Rs.1,00,000
- (b) Rs. 66,667
- (c) Rs. 16,000
- (d) Rs. 40,000
- (e) Rs. 24,000.

(2 marks)

[<Answer>](#)

57. ASDF Ltd., furnished the following information:

Current assets Rs.1,50,000
 Current liabilities Rs. 50,000
 Inventories Rs. 20,000

The quick ratio of ASDF Ltd., was

- (a) 2.6
- (b) 3.1
- (c) 0.4
- (d) 3.0
- (e) 5.0.

(2 marks)

[<Answer>](#)

58. The following balances are extracted from the books of Rio Ltd.:

Particulars	2007-08 (Rs.)	2006-07 (Rs.)
Current liabilities	24,000	6,000
Current assets	32,000	38,000

The net change in working capital in 2007-08 was

- (a) Rs.32,000 (increase)
- (b) Rs.32,000 (decrease)
- (c) Rs.24,000 (decrease)
- (d) Rs.24,000 (increase)
- (e) Rs.12,000 (increase).

(2 marks)

[<Answer>](#)

59. Ram has 800 shares of XYZ Ltd., and he earned a total dividend of Rs.54,000. The market price of the share is Rs.135. The return on his investment was

- (a) 0.50
- (b) 0.25
- (c) 2.81
- (d) 7.60
- (e) 0.93.

(2 marks)

[<Answer>](#)

60. Ranjit Ltd., furnishes the following information:

Issued capital of 10,000 shares @Rs.100 each	Rs.10,00,000
Called-up capital of 8,000 shares @ Rs.100 each	Rs. 8,00,000
Calls-in-arrear	Rs. 80,000
Final dividend	10%

The amount of final dividend paid to the shareholders was

- (a) Rs.1,00,000
- (b) Rs. 72,000
- (c) Rs. 80,000
- (d) Rs. 75,000
- (e) Rs. 92,000.

(2 marks)

[<Answer>](#)

61. Radheshyam Ltd., furnished the following information:

Particulars	Rs.
Equity share capital of 9,000 shares of Rs.100 each fully paid-up	9,00,000
Reserve fund	6,00,000
7% Debentures	5,00,000

(2 marks)

The debt–equity ratio was

- (a) 3:1
- (b) 5:9
- (c) 5:1
- (d) 1:5
- (e) 1:3.

[<Answer>](#)

62. The following is the summarized balance sheet of Arial Ltd., as on March 31, 2008:

Liabilities	Rs.	Assets	Rs.
10,000 equity shares of Rs.10 each	1,00,000	Fixed assets	2,00,000
Profit and Loss a/c	2,20,000	Current assets	1,70,000
Creditors	50,000		
Total	3,70,000	Total	3,70,000

On April 1, 2008, Rin Ltd., took over the business of Arial Ltd., for a consideration of Rs. 3,75,000. The amount of profit/loss in the Realization account of Arial Ltd., was

- (a) Rs.55,000 (profit)
- (b) Rs.55,000 (loss)
- (c) Rs.75,000 (profit)
- (d) Rs.75,000 (loss)
- (e) Rs.50,000 (profit).

(2 marks)

[<Answer>](#)

63. Current liabilities were Rs.50,000 and current assets were Rs.1,50,000. If bills receivable realized Rs.20,000 and preference shares worth of Rs.60,000 got converted into equity, the impact on working capital (WC) is

- (a) Decrease of Rs.40,000
- (b) Increase of Rs.40,000
- (c) No change
- (d) Increase of Rs.20,000
- (e) Decrease of Rs.20,000.

(2 marks)

[<Answer>](#)

64. On January 01, 2008 Sayo Ltd., acquired 8,000 shares of Musi Ltd. The share capital of Musi Ltd., consists of 10,000 shares of Rs.100 each fully paid. Musi Ltd., furnished the following details:

Particulars	Rs.
Profit and Loss account (Cr.) as on April 01, 2007	1,50,000
Profit for the year 2007-08 (Cr.)	50,000
Dividends paid out of pre-acquisition profits on May 05, 2007	75,000

The minority interest in Consolidated Balance Sheet as on March 31, 2008 was

- (a) Rs.2,25,000
- (b) Rs.2,55,000
- (c) Rs.2,40,000
- (d) Rs.2,50,000
- (e) Rs.2,35,000.

(2 marks)

[<Answer>](#)

65. Consider the following data of a company:

Particulars	Rs.
Average daily sales	3,000
Cost of sales	2,00,000
Average accounts receivable	4,38,000
Accounts payable	2,50,000

The average collection period was

- (a) 60 days
- (b) 73 days
- (c) 146 days
- (d) 219 days
- (e) 240 days.

(2 marks)

[<Answer>](#)

66. Double Ltd., acquired 70% shares of Single Ltd., on January 01, 2008. The opening balance of total assets was Rs.5,00,000 and during the acquisition the total assets were revalued at

Rs. 6,05,250. The share of Double Ltd., in the capital profit, to be shown in the Consolidated Balance

(2 marks)

Sheet as on March 31, 2008 was

- (a) Rs. 73,675
- (b) Rs. 55,250
- (c) Rs.1,05,250
- (d) Rs. 18,750
- (e) Rs.1,50,000.

67. Green Ltd., acquired 75% share in the Share Capital of Rs. 75,000 of Yellow Ltd., at a price of Rs.1,05,000. The pre-acquisition profits and post-acquisition profits of the subsidiary company were Rs.38,000 and Rs.25,000 respectively. The amount of goodwill shown in the Consolidated Balance Sheet was

[<Answer>](#)

- (a) Rs.84,750
- (b) Rs.26,000
- (c) Rs.20,250
- (d) Rs.28,500
- (e) Rs.56,250.

(2 marks)

68. R.S. Brothers Ltd., provides the following information for the year ended March 31, 2008:

[<Answer>](#)

Particulars	Rs.
Net Profit	23,800
Bad debts	1,200
Depreciation	12,000

The funds from operation of R.S. Brothers Ltd., were

- (a) Rs.37,000
- (b) Rs.35,800
- (c) Rs.23,800
- (d) Rs.13,200
- (e) Rs.24,000.

(2 marks)

69. The general manager of a business firm is entitled to a commission of 5% on profits before charging such commission. If profit is Rs.10,500, the amount of commission is

[<Answer>](#)

- (a) Rs.500.00
- (b) Rs.525.00
- (c) Rs.552.65
- (d) Rs.498.75
- (e) Rs.551.25.

(2 marks)

70. Minority interest **does not** consist of

[<Answer>](#)

- (a) A proportionate share in the subsidiary company's profits
- (b) A proportionate share in any increase in the value of the asset of the subsidiary company
- (c) A proportionate share in the equity shares of the holding company
- (d) A proportionate share in the decrease in the value of assets of the company
- (e) Face value of the shares held by minority group.

(1 mark)

END OF QUESTION PAPER

Suggested Answers Financial Accounting – II (MB132): July 2008

ANSWER

REASON

1. E A statement of changes in financial position is also known as funds flow statement (e). A balance sheet states the financial position of a company as on a particular date while Profit and Loss account and Profit and Loss Appropriation account shows the financial performance of a company during a year or a particular time period. Pro forma statements are prepared to project the financial position (pro forma balance sheet) of a company and the financial performance (pro forma income statement) of a company in future. [<TOP](#)

2. D Option (d) is the correct answer because the time interval between the dates of balance sheets of the holding company and subsidiary company should not be more than six months. [< TOP](#)
3. C Option (c) is the correct answer because the minority interest shall be shown on the liabilities side of the consolidated balance sheet. [< TOP](#)
4. B The consolidated balance sheet shows Rs.4,50,000 against Profit and Loss account being the profit of parent company of Rs.3,00,000 and 75% share in the post acquisition profit of subsidiary company of Rs.2,00,000. Thus, Rs.4,50,000. Alternative (b) is the correct answer. [< TOP](#)
5. B The company which acquires more than 51% of the share/control of another company is known as holding company. [< TOP](#)
6. B
- (a) A sum set aside from profits to provide for repayment of debentures is debenture redemption reserve, which is a revenue reserve.
 - (b) The surplus arising on a professional revaluation of fixed asset is revaluation profit which is capital reserve.
 - (c) An amount set aside from profits to provide for the increased cost of replacement of fixed asset is called replacement reserve, and it is a revenue reserve.
 - (d) A sum set aside from profits towards a special publicity campaign which is to be started in the following year is a provision and it is not a reserve.
 - (e) A sum retained to provide for loss that may arise out of doubtful debts, is a provision and not a reserve.
7. C Following are the sources of funds: [< TOP](#)
- A net decrease in assets.
 - A net increase in liabilities.
- Following are the uses of funds:
- A net increase in assets.
 - A net decrease in liabilities.
- As the credit given by the suppliers of the goods increases the liabilities, it is a short-term source of fund.
8. A Acid-test ratio is a liquidity ratio. Acid-test ratio is also called as Quick ratio. The quick ratio is more stringent method of liquidity. Therefore option (a) is the correct answer. [< TOP](#)
9. B When debentures are redeemed there is an outflow of cash. Hence in funds flow statement prepared on working capital basis, redemption of debentures is a use of fund. Therefore option (b) is correct answer. [< TOP](#)
10. A Ratio analysis, is the tool of financial analysis, hence, (a) option is the correct answer. A balance sheet states the financial position of a company as on a particular date and Profit and Loss Appropriation account shows the financial performance of a company during a year or a particular time period. Trial balance is the summary statement of ledger balances. Bank reconciliation statement is the tool to reconcile the differences between bank column of cash book and bank balance as per pass book. [< TOP](#)
11. C Working capital refers to current assets minus current liabilities. If stock is sold at 20% below cost for cash, the value of current assets decreases and thereby decreases the value of working capital. Therefore option (c) is the correct answer. [< TOP](#)
12. A Dividends can be paid in the form of cash only. Bonus issue shall not be made in lieu of dividend. Right issue, issue of debenture and issue of preference shares cannot be given in lieu of dividend. Hence, the answer is (a). [< TOP](#)
13. C Option (c) is the correct answer because the price payable by the transferee company to the transferor company for the net assets taken over is known as [< TOP](#)

- Purchase consideration.
14. D A company should also show, by way of notes to the balance sheet, certain contingent liabilities listed below: [< TOP](#)
1. Claims against the company not acknowledged as debts.
 2. Uncalled liability on shares partly paid.
 3. Arrears of fixed cumulative dividends.
 4. Estimated amount of contracts remaining to be executed on capital account and not provided for.
 5. Other money for which the company is contingently liable.
- Therefore option (d) is the correct answer.
15. C No disclosure is required in consolidated financial statements in respect of inter-company transactions. The other items, dividend declared, capital reserve/goodwill and minority interest are disclosed in consolidated financial statements. [< TOP](#)
16. E Stores and spare parts are not fixed assets. They are current asset. Therefore option (e) is the correct answer. All remaining items i.e., building, leasehold, railway sidings and livestock are fixed assets. [< TOP](#)
17. C Option (c) is the correct answer because accrued interest on investment is a current asset. [< TOP](#)
18. B Option (b) is the correct answer. [< TOP](#)
A debt-asset ratio of 0.61 implies that 61% of the total assets are financed from debt sources.
19. C Advances recoverable is a current asset to the company. It is shown under the head 'Loans and Advances' in the balance sheet of a company. The following are the current liabilities in the balance sheet of a company:- [< TOP](#)
- Bills payable.
 - Bank overdraft.
 - Unclaimed dividend.
 - Declared dividend.
20. C Sales Force Estimates is a subjective method of sales forecasting. Option (a) trend analysis, option (b) extrapolation, option (d) regression analysis are objective methods of sales forecasting and option (e) sustainable growth rate is a method to find out the rate of growth for fund requirement. Hence, option (c) is the correct answer. [< TOP](#)
21. C The following will form part of 'Miscellaneous Expenditure' of the balance sheet of a company:- [< TOP](#)
- Preliminary expenses,
 - Underwriting expenses,
 - Discount on issue of shares, and
 - Interest paid out of capital.
- The loss on sale of fixed assets is debited to Profit and Loss account. Therefore option (c) is the correct answer.
22. E The purpose of internal reconstruction is not to bring about combination or merger but to re-organize a company which is generally over capitalized or undercapitalized or which has suffered from heavy losses. External reconstruction means floating of a new company to take over the business of an existing company. Hence, (e) is correct answer. [< TOP](#)
23. D The amount of proposed dividend out of pre-acquisition profits of the subsidiary company belonging to the holding company is credited to the investment account of the holding company. Therefore option (d) is the correct answer. [< TOP](#)

24. E Option (e) is the correct answer because profits earned after the date of acquisition are treated as revenue profits for a holding company. [< TOP](#)
25. A Retention ratio would directly affect the dividend yield. Dividend yield exists for only those firms which declare dividends. Hence (a) is correct answer. [< TOP](#)
26. C The dividend recommended by the directors is a proposed dividend, till such time, it is adopted by the shareholders in the Annual General Meeting. Once it is adopted, it is a 'Declared Dividend' and it becomes a legal liability from the date of declaration. Hence, the alternative (c) is the correct answer. [< TOP](#)
27. A Bills drawn or accepted either by the holding company or its subsidiary company is not an outside obligation for the holding company. The item "Bills Receivable" in one company's balance sheet and corresponding item "Bills Payable" in another company's balance sheet are to be eliminated under inter-company transactions against each other. Hence option (a) is correct answer. [< TOP](#)
28. C Interim dividend: Dividend declared by the directors between two annual general meetings is known as interim dividend.
Proposed dividend: The dividend recommended by the directors is termed as proposed dividend.
Final dividend: The dividend declared over and above the interim dividend at the Annual General Meeting (AGM) is known as final dividend.
Declared dividend: The dividend finally decided by the shareholders in the AGM as payable is termed as Declared dividend.
Unpaid dividend: A portion of dividend declared may remain as unpaid due to the fact that such dividend has not been claimed by certain shareholders is known as unclaimed dividend.
Hence, (c) is correct answer. [< TOP](#)
29. C Debt – equity ratio and debt – asset ratios are leverage ratios for a company. Interest coverage ratio is a coverage ratio and return on investment represents dividend yield ratio of a business entity. Quick ratio indicates the liquidity status of a company. [< TOP](#)
30. C Option (c) is the correct answer because, to assess whether the financial ratios are within the limits, they are compared with the industry averages or with a good player in normal business conditions if an organized industry is not there. This is called cross-sectional analysis in which industry averages or standard players averages are used as benchmarks. [< TOP](#)
31. D Debt service coverage ratio indicates the inability/ability to pay the financial institutions. Inventory turnover ratio indicates how fast the inventory is moving, accounts receivable turnover ratio indicates the speed with which the accounts receivable are converted into cash. The average collection period indicates the efficiency or inefficiency in collection of debtors, asset turnover ratio indicates how efficiently the total assets are used to produce sales. Hence (d) is the correct answer. [< TOP](#)
32. D Payment of a current liability will improve current ratio. Sale of motor car for cash will improve current ratio. Purchase of stock for cash will have no change on current ratio. Issue of new shares will improve current ratio. Purchase of fixed asset will decline current ratio. Therefore the answer is (d). [< TOP](#)
33. A The return on equity is used as of measure the profitability of equity funds invested in the firm. [< TOP](#)
34. A Gross profit ratio can be calculated from the income statement. [< TOP](#)
35. B Fictitious assets like preliminary expenses are not taken into account for the calculation of purchase consideration under net assets method. [< TOP](#)

36. D Repayment of loan will lead to an outflow of cash which will appear in the company's cash flow statement. Hence, (d) is correct answer. [< TOP](#)

37. A Debt-Equity ratio is also called as leverage ratio. Quick ratio (d) is liquidity ratio. Inventory turnover ratio is turnover ratio (b). Gross profit margin ratio is profitability ratio (e). Dividend pay-out ratio is earnings ratio (c). Hence, (a) is the correct answer. [< TOP](#)

38. E Option (e) is the correct answer because the profits on sales of forfeited shares by the company are not included for the purpose of calculating managerial remuneration. [< TOP](#)

39. C Low assets turnover indicates that assets are not used properly to their full capacity levels to achieve higher sales. Therefore option(c) is the correct answer. [< TOP](#)

40. D Redemption of preference share capital, the installation of a capital asset and buy back of the equity shares – are the examples of the uses of funds by a business entity. Conversion of debentures into equity shares is a matter of capital restructuring that does not lead to any flow of funds. But selling an old car today to buy a new one after one year leads to the inflow of cash to a company that may be used up to the next year, which can be considered as a source of funds to the company. Hence, (d) is correct answer [< TOP](#)

41. C Profit on revaluation of assets = Rs.5,00,000. [< TOP](#)
 Share of minority group = (100%– 80%) = 20%
 Share of profit on revaluation = 20% of Rs.5,00,000
 $\frac{20}{100} \times \text{Rs. } 5,00,000 = \text{Rs. } 1,00,000.$

42. B Option (b) is the correct answer because:- [< TOP](#)
 Capitalization rate = Earnings per share ÷ Market price of the share
 Earnings per share = Rs.10
 Market price of the share = Rs.100
 Therefore capitalization rate = Rs.10 ÷ 100 = 10%.

43. C Option (c) is the correct answer because [< TOP](#)
 Earnings per share = Net income available for shareholders ÷ number of outstanding shares
 = Rs.1,50,000 ÷ 1000 = Rs.150
 Price – earnings ratio = Market price of the share ÷ Earnings per share
 Market price of the share = Rs.150 x 2.5 = Rs.375.

44. A [< TOP](#)

Dr.		Profit and Loss Appropriation account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To transfer to reserve	1,72,500	By balance c/d	50,000		
To dividends paid	45,000	By excess provision for income tax of 2006-07	10,000		
To balance transferred to balance sheet	92,500	By current year net profit	2,50,000		
	3,10,000				3,10,000

45. A [< TOP](#)

	Rs.
Cost of acquisition of shares	75,000
Less: Nominal value of shares 80,000 × 85%	<u>68,000</u>
Goodwill	<u>7,000.</u>

46. A Total assets to turnover ratio = Sales / Total assets = 1.72 [< TOP](#)
 Sales turnover /Rs. 54,00,000 = 1.72
 Hence , sales = Rs.92,88,000.

47. B [< TOP](#)

	Rs.
Net assets acquired	= 7,50,000
Less: total liabilities	= <u>2,25,000</u>
	<u>5,25,000</u>

Number of shares issued for purchase consideration at Rs. 50
 = Rs.5,25,000 ÷ Rs.50 = 10,500 shares.

48. A Extract of consolidated balance sheet of Bengal Ltd., as on March 31,2008 [< TOP](#)

Liabilities	Rs.	Assets	Rs.
		Closing stock	
		Bengal	22,000
		Barakar	<u>36,000</u>
			58,000
		Less:	
		Unrealized profit	240
		(Rs.1,200 × 20/100)	
			<u>57,760</u>

49. A Cost of goods sold = Sales – Gross profit [< TOP](#)
 = Rs.30,00,000 – Rs.12,00,000= Rs.18,00,000
 Inventory turnover = Cost of goods sold/ Average inventory
 = 18,00,000 /Rs.5,00,000 = 3.6 times.

50. C [< TOP](#)

	Rs.
Reserves & Surplus (opening balance)	1,00,000
Add : Transfer to General Reserve	1,00,000
Balance in Profit & Loss A/c	<u>2,50,000</u>
Reserves & Surplus (at year end)	<u>4,50,000</u>

51. A The Accounts receivable turnover ratio = Net credit sales ÷ Average accounts receivable [< TOP](#)
 Average accounts receivable = (opening accounts receivable + closing accounts receivable) ÷ 2
 = (Rs.90,000 +Rs.1,00,000) ÷2 = Rs.95,000
 Accounts receivable turnover ratio= Rs.3,80,000 ÷ Rs.95,000 = 4 times.

52. C Net sales = Gross sales– sales return= Rs.5,50,000 – Rs.50,000 = Rs.5,00,000 [< TOP](#)
 Gross profit = Rs.5,00,000– Rs. 3,00,000 = Rs.2,00,000
 Gross profit margin = (Gross Profit ÷ Net sales) × 100
 = (2,00,000 ÷ 5,00,000)×100 = 40% .

53. A Increase in gross profit in 2007-08 = 3,00,000 × 20/100 = Rs.60,000 [< TOP](#)
 Increase in operating expenses in 2007-08= 2,00,000 × 10/100 = Rs.20,000
 Net profit of 2007-08 = 3,60,000 – 2,20,000 = Rs.1,40,000
 Net profit margin = (net profit /sales) × 100 = (Rs.1,40,000 ÷ Rs.8,00,000) × 100 = 17.5%.

54. A Undistributed Profits for the year 2006-07 Rs.4,00,000 [< TOP](#)
 Add: Profit up to the date of acquisition (4,50,000 × 8/12) Rs.3,00,000
 Total capital profits
 Rs.7,00,000
 Share of Kiron Ltd., 85% is (85% of 7,00,000)
 Rs.5,95,000

The amount credited to capital reserve account is Rs.5,95,000.

55. B Earning per shares(EPS) = Net income available ÷ Number of shares = [< TOP](#)
 $2,40,000 \div 12,000 = \text{Rs.}20$
 Dividend per share = Rs.5
 Dividend pay-out ratio = Dividend per share ÷ Earnings per share =
 $\text{Rs.}5/\text{Rs.}20 = .25$.

56. E Earnings before interest and taxes (EBIT) = Average of total assets × Earning power [< TOP](#)
 $= \text{Rs.}40,000 \times 0.6 = \text{Rs.}24,000$

57. A Current assets = Rs.1,50,000 [< TOP](#)
 Current liabilities = Rs.50,000
 Quick ratio = (current assets – inventories) ÷ current liabilities
 $= (\text{Rs.}1,50,000 - \text{Rs.}20,000) \div \text{Rs.}50,000$
 $= \text{Rs.}1,30,000 \div \text{Rs.}50,000$
 $= 2.6$.

58. D [< TOP](#)

Particulars	2007-08 Rs.	2006-07 Rs.	Effect on working capital	
			Increase	Decrease
Current assets	32,000	38,000	6,000	
Current liabilities	24,000	6,000	18,000	
Total			24,000	

The net increase in working capital is Rs. 24,000.

59. A Option (a) is the correct answer because dividend yield ratio gives current return on the investment. [< TOP](#)
 Dividend per share = Total dividend earned ÷ Number of shares held
 $= \text{Rs.}54,000 \div 800 = \text{Rs.}67.50$
 Dividend yield = Dividend per share ÷ Market price of the share
 $= \text{Rs.}67.5 \div 135 = 0.5$.

60. B Dividend is paid on paid-up capital of the firm. [< TOP](#)
 Therefore the paid-up capital = Called-up capital – Calls-in-arrear
 $= \text{Rs.} 8,00,000 - \text{Rs.}80,000 = \text{Rs.} 7,20,000$
 Therefore 10% on paid-up capital is $\text{Rs.}7,20,000 \times 10/100 = \text{Rs.}72,000$.

61. E Total equity = Equity share capital + Reserve fund [< TOP](#)
 $= \text{Rs.}9,00,000 + \text{Rs.}6,00,000$
 $= \text{Rs.}15,00,000$
 Debt-equity ratio = Debt ÷ equity = $5,00,000 \div 15,00,000 = 1:3$.

62. A [< TOP](#)

Dr.		Realization Account		Cr.	
To Fixed assets	2,00,000	By Creditors a/c	50,000		
To Current assets	1,70,000	By Rin Ltd., a/c	3,75,000		
To Equity shareholders a/c (profit)	55,000				
	4,25,000				4,25,000

63. C There will not be any impact of these transactions on the working capital because both bills receivable and cash are current assets. If on one side if bills receivable is decreasing, cash is increasing. Therefore there is no change. Preference shares getting converted to equity shares also does not cause any change in working capital. Therefore, there is no impact on working capital. [< TOP](#)

64. A Share capital of minority group = $2,000 \times \text{Rs.}100 = \text{Rs.}2,00,000$ [< TOP](#)
 Proportionate share in profits

$$= (\text{Rs.}1,50,000 + \text{Rs.}50,000 - \text{Rs.}75,000 \text{ i.e., } \text{Rs.}1,25,000 \times 2/10) = \text{Rs.}25,000$$

$$\text{Therefore minority interest} = \text{Rs.}2,00,000 + \text{Rs.}25,000 = \text{Rs.}2,25,000.$$

65. C Average collection period = Average accounts receivable ÷ Average daily sales < TOP

$$= \text{Rs.}4,38,000 \div \text{Rs.}3,000 = 146 \text{ days.}$$

66. A Total profit on revaluation of assets = Rs.6,05,250 – Rs.5,00,000 = Rs.1,05,250 < TOP

$$\text{Share of Double Ltd., in the capital profit} = \text{Rs.}1,05,250 \times 70\% = \text{Rs.}73,675.$$

67. C < TOP

Particulars	Rs.	Rs.
Cost of control on acquisition or cost of investments		1,05,000
Less: share in share capital 75% of Rs.75,000	56,250	
Less: share in pre-acquisition profit i.e.75% of Rs.38,000	28,500	84,750
Goodwill		20,250

68. A Funds from operations = Net Profit + non-cash expenses < TOP

$$\text{Funds from operations} = \text{Net Profit} + \text{Depreciation} + \text{Bad debts}$$

$$\text{Funds from operations} = \text{Rs.}23,800 + \text{Rs.}12,000 + \text{Rs.}1,200 = \text{Rs.}37,000.$$

69. B The commission at the rate of 5% before charging such commission will be 5/100 of Rs.10,500 = Rs.525. (b) is the correct answer. < TOP

70. C Option (c) is the correct answer because minority interest does not consists of a proportionate share in the equity shares of the holding company. < TOP

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