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QUESTION BANK

SR. NO	QUESTION	OPTION_1	OPTION_2	OPTION_3	OPTION_4	CORRECT ANSWER	SOLUTION
1	Your cumulative arrears of preference dividend are ₹100 m, including for the current year preference dividends of ₹20 m. During the year, you have not declared any dividends either on equity shares or on preference shares. In calculating the EPS, you should reduce from the profits for the year:	The entire cumulative arrears of 100 m	₹20 m	Nothing, as no dividend has been declared by the entity	₹100 m	**2**	₹20 m
2	The weighted average number of shares outstanding during the period for all periods (other than the conversion of potential ordinary shares) should be adjusted for	Any new issue of shares for cash	Any prior-year adjustment	Any change in the number of ordinary shares without a change in resources	Any convertible instruments settled in cash	**3**	Any change in the number of ordinary shares without a change in resources
3	Basic earnings per share should be calculated by dividing the profit or loss for the period by the	Number of ordinary shares outstanding at the start of the period	Number of ordinary shares outstanding at the end of the period	The weighted average number of shares outstanding during the period	The weighted average number of shares outstanding at the start of the period	**3**	The weighted average number of shares outstanding during the period
4	Shares, that will be issued upon the conversion of a mandatorily convertible instrument, are included in the calculation of basic earnings per share from	The date of conversion	The date that the new shares are registered	The date the contract is entered into	The date of redemption	**3**	The date the contract is entered into
5	Contingently issuable shares are treated as outstanding, and are included in the calculation of basic earnings per share	From the date when all necessary conditions are satisfied	The date the contract is entered into	The date that the new shares are registered	At the end of the current period	**1**	From the date when all necessary conditions are satisfied

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6	In a bonus issue, the number of shares, outstanding before the event, is adjusted for the proportionate change in the number of shares outstanding	At the start of the current period	At the date of the capitalisation issue	As if the event had occurred at the start of the earliest period presented	At the end of the current period	**3**	As if the event had occurred at the start of the earliest period presented
7	Earnings per share is calculated before accounting for which of the following items	Ordinary Dividend	Preference dividend for the period	Taxation	Minority Interest	**1**	Ordinary Dividend
8	Options and warrants are dilutive, when they would result in the issue of shares for	Less than the average market price of shares during the period	More than the average market price of shares during the period	The average market price of shares during the period	More than the average face value of shares during the period	**1**	Less than the average market price of shares during the period
9	Staff share options with fixed terms are treated as options in the calculation of diluted earnings per share. They are treated as outstanding	On the exercise date	On the grant date	At the start of the earliest period presented	At the end of the earliest period presented.	**2**	On the grant date
10	When an undertaking has issued a contract that may be settled in shares, or for cash, at the undertaking's option, the undertaking should presume that the contract will be settled in	Shares	Cash	The more dilutive of the two	Average of the two	**1**	Shares

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11	Dilution is	An increase in earnings per share when ordinary shares are converted to convertible instruments	An decrease in earnings per share when convertible insruments are converted to ordinary shares	An increase in earnings per share when convertible insruments are converted to ordinary shares	An decrease in earnings per share when ordinary shares are converted to convertible	**2**	An decrease in earnings per share when convertible insruments are converted to ordinary shares
12	When an enterprise makes a bonus issue / stock split / stock dividend or a rights issue, then	The previous year's EPS is not adjusted for the issue	Only the diluted EPS for the previous year is adjusted	Only a note of the effect on the previous year's EPS is made	The previous year's EPS is adjusted for the issue	**4**	The previous year's EPS is adjusted for the issue
13	ABC Ltd. is having Issued Share Capital of 40,00,000 shares on 01.01.2013. It issued further 20,00,000 shares for cash on 01.10.2013. Its weighted average number of shares will be	42,50,000 shares	45,00,000 shares	50,00,000 shares	60,00,000 shares	**2**	45,00,000 shares
14	A company uses _______ as the control number, to establish whether potential shares are dilutive, or anti-dilutive.	Profit from continuing operations	Profit from discontinuing operations	Both Profit from continuing and discontinuing operations	Average Profit from continuing operations	**1**	Profit from continuing operations
15	When an undertaking presents both consolidated and separate financial statements, the disclosures required by IND-AS 33 required to be presented mandatorily	For both sets of statements	Only for the consolidated information	Only for the separate financial statements	Either in consolidated or separate financial statements as elected by the entity	**2**	Only for the consolidated information

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16	Where ordinary shares are issued but not fully paid, then the ordinary shares are treated in the calculation of basic EPS	In the same way as fully paid ordinary shares	In the same way as warrants or options and are included only in diluted EPS	Are ignored for the purposes of basic and diluted EPS	As a fraction of an ordinary share to the extent that they are entitled to participate in dividends	**4**	As a fraction of an ordinary share to the extent that they are entitled to participate in dividends
17	Under IND-AS 12 Income Taxes, deferred tax assets arising from deductible temporary differences are recognised when	There is a reasonable expectation of realisation	It is probable that taxable profit will be available against which the deferred tax asset can be utilized	The timing difference arises except when the carrying amount and tax base differs at initial recognition	It is virtually certain that the timing difference will be realised	**2**	It is probable that taxable profit will be available against which the deferred tax asset can be utilized
18	Which of the following examples would not give rise to a temporary difference?	Revenue from installment sales recognised under the installment method for taxation.	Recognition of goodwill in a business combination.	Depreciation used for accounting purposes whilst an accelerated method is used for tax purposes.	Warranty costs recognised for accounting purposes but not recognized for tax purposes until paid.	**2**	Recognition of goodwill in a business combination
19	When two companies A Ltd. and B Ltd. amalgamate into, say AB Ltd., it is the hope that the Value of AB Ltd. will be more than the sum of values of A Ltd. and B Ltd. This is known as	Goodwill	Economic Value	Synergy	Present Value	**3**	Synergy
20	Which is the best method among these for valuation of a firm where not much data about is profit is available and its shares are not actively traded?	Market Value	Discounted Cash Flow	Net Asset Based Approach	Both a & b	**3**	Net Asset Based Approach

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21	N Ltd. values goodwill as 2 year's purchase of super profit. The normal earning in its line of business is 12% on capital employed. Its Balance sheet shows fixed Assets ₹ 2,10,000, Current Assets ₹ 1,40,000 and Current liabilities ₹ 35,000. The trading profits of last four years are 2014 - ₹ 1,24,000, 2013 - ₹ 98,000 2012 - ₹ 1,00,000, 2011 - ₹ 1,10,000 Goodwill under Super profit method	37,800	70,200	1,40,400	1,08,000	**3**	1,40,400
22	The profits and losses were: 2011 - Profit ₹20,000; 2012 - Loss ₹34,000; 2013 – Profit ₹1,00,000; 2014 - Profit ₹1,50,000. The average capital employed in the business is ₹4,00,000. The rate of interest expected from capital invested in that class of business is 10%. The remuneration of directors is estimated to be ₹12,000 p.a. Calculate the value of goodwill on the basis of 2 years' purchase of Super Profit based on the average of 3 years.	60,000	50,000	20,000	40,000	**4**	40,000
23	On 1st April 2014, an existing company had assets of ₹1,50,000, including cash of ₹10,000. Its creditors amounted to ₹10,000 on that date. The company had a Reserve Fund of ₹20,000 while Capital account showed a balance of ₹1,20,000. If the normal rate of return is 20% and the goodwill of the company is valued at 48,000 at four years' purchase of super profits, find the average profits per year of the existing company.	60,000	40,000	50,000	48,000	**2**	40,000
24	A company earns profit of ₹2,00,000. The normal rate of return in the similar type of business is 10%. The value of total assets (excluding goodwill) and total outside liabilities as on the date of valuation of goodwill are ₹22,00,000 and ₹5,60,000 respectively. Calculate the value of goodwill according to Capitalization of Super Profits Method.	2000000	164000	1640000	360000	**4**	360000
25	Calculate the value of Goodwill according to 10 years Purchase of Super Profits method in the previous question.	3,60,000	20,00,000	16,40,000	1,64,000	**1**	3,60,000

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26	Calculate goodwill if in the company average capital employed is ₹60,000 and normal rate of return is 10%, the average profit for last 5 years is ₹12,000 and goodwill is estimated at 3 years' purchase of super profits, remuneration to director's ₹3,000.	6,000	36,000	12,000	9,000	**4**	9,000
27	Goodwill is to be valued at 3 years purchased of Average profit of last 5 years. Profit for the last five years are given below: Profit ₹16,000 Profit ₹15,000 Loss ₹8,000 Profit ₹7,000 Profit ₹10,000 You are asked to calculate the amount of goodwill	₹ 24,000	₹ 33,600	₹ 30,000	₹ 35,000	**1**	₹ 24,000
28	Goodwill should be valued on the basis of 2 years purchase of last 4 years' average profit. The profits were: **Year** **Profit (₹)** 2010-11 1,24,000 2011-12 1,20,000 2012-13 80,000 2013-14 1,30,000 Calculate value of goodwill.	₹ 4,54,000	₹ 2,27,000	₹ 3,02,667	₹ 3,05,800	**2**	₹ 2,27,000
29	The profit for the four years from 2010 to 2013 ₹40,000, ₹45,000, ₹55,000, ₹53,000. Calculate the goodwill at 2.5 years purchase of the average profit for last 3 years.	1,20,625	96,500	12,06,250	1,93,000	**1**	1,20,625
30	M/s Tirupati Traders Ltd. capital employed is ₹1,00,000. The normal rate of return in similar type of business is 10%. The last three years profits of M/s Tirupati Traders Ltd. are ₹20,000, ₹18,000 and ₹22,000 respectively. The Goodwill is to be valued at 2 years purchase of super profit.	₹ 20,000	₹ 26,667	₹ 30,000	₹ 37,000	**1**	₹ 20,000

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31	The Capital employed is ₹1,50,000. The average profit for last 3 years is ₹22,000 and the normal rate of return in the business is 8%. Calculate Goodwill at 3 years purchase of the Super profit.	22,000	66,000	20,000	30,000	**4**	30,000
32	K Ltd. announced a rights issue of four shares of 100 each at a premium of 160% for every five share held by the existing shareholders. The market value of the share at the time of rights issue is 440. The value of right is	124	352	80	110	**3**	80
33	The equity share capital of W Ltd. consists of 1,50,000 equity shares of ₹10 each fully paid-up. The net profits for the past three years are: ₹2,52,500, ₹3,10,000 and ₹4,50,000. Out of these profits, 20% is transferred to general reserve. If the normal rate of return is 15%, the value of share under the yield method is	₹ 15.00	₹ 8.33	₹ 6.67	₹ 12.00	**4**	₹ 12.00
34	Determine the market price per share of a firm having equity capital of ₹1,00,000 (face value of ₹50 per share) the profit after taxes is ₹12,000 and P/E ratio is 5.	30	60	50	20	**1**	30
35	A manufacturing group has just acquired a controlling interest in a Royal Knights - T20 entity that is listed on a stock exchange. The management of the manufacturing group wishes to exclude the Royal Knights - T20 entity from the consolidated financial statements on the grounds that its activities are dissimilar. How should the Royal Knights - T20 entity be accounted for?	The entity should be consolidated as there is no exemption from consolidation on the grounds of dissimilar activities	The entity should not be consolidated using the purchase method but should be consolidated using equity accounting	The entity should not be consolidated and should appear as an investment in the group accounts	The entity should not be consolidated; details should be disclosed in the financial statements	**1**	The entity should be consolidated as there is no exemption from consolidation on the grounds of dissimilar activities
36	XYZ Company purchased ABC Company. If the purchase consideration paid by XYZ. Company exceeds the value of net assets of ABC Company, the balance is	Debited to Goodwill A/C	Debited to Capital Reserve A/C	Credited to Goodwill A/C	Credited to Capital Reserve A/c	**1**	Debited to Goodwill A/C

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37	In the year to 31March 2010, F Acquired 75% of the share capital of S Ltd. For Rs 360000. At the date of the acquisition, S had 25000 shares of Rs 10 each and retained profit of Rs 150000, What is the value of Goodwill arising on the acquisition?	40000	60000	127500	290000	**2**	60000
38	Capital profits are	Profits earned by the subsidiary company up to the date of acquisition of shares by the holding company	Post-acquisition profits of the subsidiary company	Post-acquisition profits of the holding company	Pre-acquisition profits of the holding company	**1**	Profits earned by the subsidiary company up to the date of acquisition of shares by the holding company
39	Revenue profits for consolidation of balance sheet of holding company and subsidiary company are	The post-acquisition profits of holding company	The post-acquisition profits of subsidiary company	The profits after the financial year but before the date of acquisition of subsidiary company	The profits earned by the holding company from regular transactions	**2**	The post-acquisition profits of subsidiary company
40	In the process of preparing consolidated financial statements, which of the following items need not to be eliminated?	Inter-company profit in the beginning inventory	Inter-company profit in ending inventory	Inter-company profit on inter-company sale of a fixed asset	Inter-company profit on inventory sold to a non-affiliated company	**4**	Inter-company profit on inventory sold to a non-affiliated company
41	A 70% owned subsidiary company declares and pays a cash dividend. What effect does the dividend have on the reserves and minority interest balances in the parent company's consolidated balance sheet?	No effect on either reserves or minority interest	No effect on reserves and a decrease in minority interest	Decreases in both reserves and minority interest	A decrease in reserves and no effect on minority interest	**2**	No effect on reserves and a decrease in minority interest
42	According to which of the following accounting concepts consolidated financial statements are prepared when a parent-subsidiary relationship exists?	Going concern	Business entity	Materiality	Cost	**2**	Business entity

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43	Intra group balances and transactions resulting in unrealized profits	Should be eliminated in full	Should be eliminated to the extent of holding company's share	Need not be eliminated	Should be eliminated to the extent the management thinks appropriate	**1**	Should be eliminated in full
44	The shares of subsidiary company held by outsiders other than the holding company are in aggregate called as	Minority Interest	Share capital of subsidiary company	Share capital of holding company	Owner's Equity	**1**	Minority Interest
45	On March 1, 2010, H Ltd. drew two bills on S Ltd. its subsidiary, for 10,000 each. On the same day, H Ltd. discounted one bill with a bank @ 8%. On March 31, 2010, the balances of bills receivable account of H Ltd. and S Ltd. were ₹30,000 and ₹40,000 respectively. The amount of bills receivable shown in the Consolidated Balance Sheet as on March 31, 2010 was	80000	40000	70000	60000	**4**	60000
46	H Ltd. acquired 75% shares in S Ltd. S Ltd. supplied to H Ltd. goods of the invoice value of ₹50,000 of which 60% of the goods were still in stock of H Ltd. S Ltd. made a total profit of ₹10,000 on goods sold to H Ltd. At the time of preparation of consolidation of balance sheet, the adjustment will	Reduce ₹5,625 from Stock account	Reduce ₹5,625 from Profit & Loss account	Reduce ₹4,500 from Profit & Loss account	Reduce ₹4,500 from Stock account	**3**	Reduce ₹4,500 from Profit & Loss account
47	W ltd owns 80% Of the Equity Shares of F Ltd. On December 31, 2009, F Ltd. sold equipment to W Ltd. at a price in excess of F Ltd.'s carrying amount, but less than its original cost. On a consolidated balance sheet at December 31, 2009, the carrying amount of the (cost less accumulated depreciation) equipment should be reported at:	W Ltd.'s original cost	F Ltd.'s original cost	W Ltd.'s original cost less F Ltd.'s recorded gain	W Ltd.'s original cost less 80% of F Ltd.'s recorded gain	**3**	W Ltd.'s original cost less F Ltd.'s recorded gain

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48	H Ltd. purchased 70% shares of S Ltd. at ₹1,40,000. S Ltd. has the capital of ₹1,00,000 in shares of 100 each. At the time of purchase of shares by H Ltd. the profit of s Ltd. was ₹90,000. S Ltd. decided to make a bonus issue out of pre-acquisition profit of one share of ₹100 each fully paid for every four shares held. Goodwill or capital reserve before issue of bonus shares is	₹70,000 (Goodwill)	₹77,000 (Goodwill	₹7,000 (Goodwill)	₹7,000 (Capital reserve)	**3**	₹7,000 (Goodwill)
49	Holding company acquired 70% of its subsidiary company shares of November 1, 2009. The profit and loss account of the subsidiary company showed a debit balance of 50,000 on April 1, 2009 and a credit balance of ₹25,000 on March 31, 2010. The share of capital profit of holding company is	₹ 50,000	₹ 43,750	₹ 35,000	₹ 30,625	**4**	₹ 30,625
50	P Ltd. owns 100% of S Ltd. On January 1, 2010, P Ltd. sold S Ltd. delivery equipment at a gain. P Ltd. had owned the equipment for two years and used a five-year straight-line depreciation rate with no residual value. S Ltd. is using a three-year straight-line depreciation rate with no residual value for the equipment. In the consolidated income statement, S Ltd.'s recorded depreciation expense on the equipment for 2010 will be decreased by:	20% of the gain on sale	33 1/3% of the gain on sale	50% of the gain on sale	100% of the gain on sale	**2**	33 1/3% of the gain on sale