M. COM (SEM IV) / PAPER CODE 67511/ FINANCIAL ACCOUNTING

QUESTION BANK

SR NO	QUESTION	OPTION A	OPTION B	OPTION C	OPTION D	CORRECT ANSWER	
1	Commercial paper are generally issued at a prices	Equal to face value	More than face value	Less than face value	Equal to redemption value	**C**	**Less than face value**
2	In which of the following arrangements with the bank, a company does not directly assume the risk of default by its customers?	Cash credit	Overdraft	Letter of credit	Pledge	**C**	**Letter of credit**
3	Which of the following is not a feature of certificate of deposit issued by a bank?	It is a document of title to a time deposit	There is no lock-in period for transferring it to others	The maximum maturity period is one year	It is not subject to the reserve requirement of the bank	**D**	**It is not subject to the reserve requirement of the bank**
4	If an amount of Rs. 50 crores is borrowed in the call money market, then the interest rate is decided by	The lender	Negotiation between lender and borrower	The borrower	The Reserve Bank of India as the amount involved is huge	**B**	**Negotiation between lender and borrower**
5	Which of the following statements is/are true regarding 91-day T-bills? (i) They are also referred to as PSU bonds. (ii) They are issued through auctions conducted by RBI. (iii) They cannot be rediscounted with RBI.	Only (i) above	Only (ii) above	Both (i) and (ii) above	Both (ii) and (iii) above	**D**	**Both (ii) and (iii) above**
6	Which of the following is a liability of a bank?	Treasury Bills	Commercial papers	Certificate of Deposits	Junk Bonds	**C**	**Certificate of Deposits**
7	Commercial paper is a type of	Unsecured short term debts	Fixed Coupon bond	Equity share capital	Government Bonds	**A**	**Unsecured short term debts**
8	In India, Commercial Papers are issued as per the Guidelines issued by	Securities and Exchange Board of India	Reserve Bank Of India	Forward Market Commission	Ministry of Finance	**B**	**Reserve Bank Of India**

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9	Which of the following statements are true regarding cost of trade credit? (i) Cost of trade credit is the implicit cost associated with not availing cash discount within the stipulated period. (ii) Smaller the discount rate offered higher will be the cost of trade credit. (iii) Larger the spread between credit and cash discount periods, lower will be the cost of trade credit (iv) Cash discount can be availed only when the cost of trade credit is lower than the opportunity cost of cash.	Both (i) and (iii) above	Both (ii) and (iv) above	(i), (ii) and (iii) above	(i), (ii) and (iv) above	**A**	**Both (i) and (iii) above**
10	Which of the following statements is true with regard to public deposit to a company?	The procedure involved in raising public deposit is fairly complex	A public deposit with maturity period of less than 1 year is also treated as long term liability	After-tax cost of public deposits will be much less than the after-tax cost of bank borrowing	Security is offered in the case of public deposit	**C**	**After-tax cost of public deposits will be much less than the after-tax cost of bank borrowing**
11	The type of collateral (security) used for short-term loan is	Real estate	Stock of good	Plant and Machinery	Equity share capital	**B**	**Stock of good**
12	Which of the following is a liability of a bank?	Treasury Bills	Commercial Papers	Certificate of Deposits	Junk Bonds	**C**	**Certificate of Deposits**
13	In payback period method, the project which is recommended for investment.	takes short payback period	takes very long payback period	yields highest rate of return	is having longer life	**A**	**takes short payback period**
14	Which of the following is not a spontaneous source of short-term funds?	Trade Credit	Accrued Expenses	Provision for Dividend	Cash credit	**C**	**Provision for Dividend**
15	The payback period is the period	a project takes to pay back the loan taken to purchase the capital assets.	Equal to the useful life of the machines	a project takes to recover its initial cash outflow	over which the project will be getting operating cash inflows	**C**	**a project takes to recover its initial cash outflow**

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16	Net Present Value of a machine	PV of Cash Inflows Less Cost of Investment	PV of Cash Inflows + Cost of Investment	PV of Net profit after tax Less Cost of Investment	PV of Cash Inflows Less Average Cost of Investment	**A**	**PV of Cash Inflows Less Cost of Investment**
17	In payback period method, the annual cash inflow means	net income after tax	net income before tax	net income before depreciation but after tax	net income after tax and depreciation	**C**	**net income before depreciation but after tax**
18	Net salvage value of fixed assets is equal to	Excess of salvage value over book value	Excess of book value over salvage value	Working capital requirement in the first year	Salvage value of fixed assets less any income tax payable on the excess of salvage value over book value	**D**	**Salvage value of fixed assets less any income tax payable on the excess of salvage value over book value**
19	Strategic Financial Management Caters to the interest of	All Shareholders	All Customers	All Suppliers	All Stakeholders	**D**	**All Stakeholders**
20	The security which has controlling right is	Preference shares	Debentures	Equity Shares	Public Deposits	**C**	**Equity Shares**
21	The period of credit in commercial paper is ________ days to ________ year.	7 days to 1 year	14 days to 1 year	7 days to 2 year	5 days to 1 year	**A**	**7 days to 1 year**
22	Which of the following is not used in Capital Budgeting?	Time Value of Money	Sensitivity Analysis	Net Assets Method	Cash Flows	**C**	**Net Assets Method**
23	A sound Capital Budgeting technique is based on	Cash Flows	Accounting Profit	Interest Rate on Borrowings	Last Dividend Paid	**A**	**Cash Flows**
24	Which of the following has no effect on project cash flows?	Salvage Value	Depreciation Amount	Tax Rate Change	Method of Project Financing	**D**	**Method of Project Financing**

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25	Which of the following is not true for capital budgeting?	Opportunity costs are excluded	Sunk costs are ignored	Incremental cash flows are considered	Relevant cash	A	**Opportunity costs are excluded**
26	Which of the following is not included in incremental cash flows?	Opportunity Costs	Sunk Costs	Change in Working Capital	Inflation effect	B	**Sunk Costs**
27	The profitability index approach to investment analysis	Fails to consider the timing of project cash flows	Considers only the project's contribution to net income and does not consider cash flow effects	Always yields the same accept/reject decisions for independent projects as the net present value method	Always yields the same accept/reject decisions for mutually exclusive projects as the net present value method	C	**Always yields the same accept/reject decisions for independent projects as the net present value method**
28	If an investment project has a profitability index of 1.15, the	Project's internal rate of return is 15%	Project's cost of capital is greater than its internal rate of return	Project’s internal rate of return exceeds its net present value	Net present value of the project is positive	D	**Net present value of the project is positive**
29	A company has unlimited capital funds to invest. The decision rule for the company to follow in order to maximize shareholders' wealth is to invest in all projects having a(n)	Present value greater than zero	Internal rate of return greater than zero	Net present value greater than zero	Net inflows Less than Net Outflows	C	**Net present value greater than zero**
30	The net present value method of capital budgeting assumes that cash flows are reinvested at	The risk-free rate	The cost of debt	The rate of return of the project	The discount rate used in the analysis	D	**The discount rate used in the analysis**
31	Reversal of capital budgeting decisions is very ________.	working capital decisions	Future decisions	Costly	Very easy	C	**Costly**
32	Cash Inflows for Capital Budgeting decisions mean	Accounting profit - Depreciation+ Tax	Accounting profit + Tax - Depreciation	Accounting profit - Tax + Depreciation	Accounting profit - Depreciation - Tax	C	**Accounting profit - Tax + Depreciation**

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33	P. Ltd. is adding a new product line which requires an investment of ₹ 14,54,000 The life of the project will be 10 years and will generate cash inflow of ₹ 3,10,000 for the first year, ₹ 2,80,000 for the second year and ₹ 2,40,000 for each year thereafter for eight years. The payback period is	6 years	5 years & 7.2 months	7 years	4.5 years	**B**	**5 years & 7.2 months**
34	Cost of project A is as ₹ 2,72,000 and offers eight annual net cash inflows of ₹ 60,000. The expected rate of return is 14%. The NPV will be	6,340	7,400	8,590	4,300	**A**	**6,340**
35	When a flexible budget is used, a decrease in the actual production level within a relevant range would	Decrease variable cost per unit	Decrease variable costs	Increase total fixed costs	Increase variable cost per	**B**	**Decrease variable costs**
36	If the activity level is reduced from 80% to 70%, the fixed cost	will decrease by 10%	will increase by 10%	per unit will decrease	per unit will increase	**D**	**per unit will increase**
37	A budget that gives a summary of all the functional budgets is known as	Capital budget	Flexible budget	Master budget	Fixed budgets	**C**	**Master budget**
38	Which of the following is normally the most appropriate sequence of events in the preparation of the indicated budgets?	Sales budget, cash budget, budgeted balance sheet, production budget	Sales budget, cash budget, production budget, budgeted balance sheet	Sales budget, production budget, cash budget, budgeted balance sheet	Sales budget, production budget, budgeted balance sheet, cash budget	**C**	**Sales budget, production budget, cash budget, budgeted balance sheet**
39	Given production at 60% capacity 600 units are produced, material 50 per unit labour 20 per unit, direct expenses 5 per unit factory overhead 20000 (60% variable) and admin overheads 15000 (60% fixed). What will be the total cost at 80% capacity?	101000	126.25	122	122000	**D**	**122000**

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40	When preparing a production budget, the quantity to be produced equals:	Sales quantity + opening stock + closing stock	Sales quantity - opening stock + closing stock	Sales quantity - opening stock - closing stock	Sales quantity + opening stock - closing stock	**B**	**Sales quantity - opening stock + closing stock**
41	A budget is a plan of action expressed in	Financial terms	Non financial terms	Both financial and non financial terms	Subjective matter	**C**	**Both financial and non financial terms**
42	_______ is drawn for various levels.	Cash Budget	Flexible budget	Master Budget	Purchase budget	**B**	**Flexible budget**
43	_______ budget is prepared for a longer period.	Cost	Capital Expenditure	Competent people	Financing	**B**	**Capital Expenditure**
44	Budgetary control is costly for _______ organizations.	Small	Large	Forecasting	Production	**A**	**Small**
45	A Budget defines _______ of a concerned manager.	Production budget	Cash budget	Responsibility	Functionality	**C**	**Responsibility**
46	Budget Manual is a	Detailed information about plans, policies, procedures and operations	Annual magazine	Note book	Budget prepared manually	**A**	**Detailed information about plans, policies, procedures and operations**
47	A budget is expressed in	Financial terms only	Quantitative terms only	Both financial and quantitative terms	Financial and / or quantitative terms	**D**	**Financial and / or quantitative terms**
48	When preparing a production budget the quantity to be produced equal	Sales quantity plus opening stock plus closing stock	sales quantity minus opening stock + closing stock	Sales quantity minus opening stock minus closing stock	Sales quantity minus opening stock minus closing stock	**B**	**sales quantity minus opening stock + closing stock**
49	the classification of fixed and variable cost has a special significance in the preparation of	Flexible budget	Cash budget	Capital budget	Zero based budget	**A**	**Flexible budget**
50	The budget which helps to plan and control cash is	Production budget	Cash budget	Sales budget	Flexible budget	**B**	**Cash budget**