T.Y.B.Com: Semester – VI

Sample Questions for Financial Accounting and Auditing IX- Financial Accounting

1. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited -

(a) It is called absorption
(b) It is called amalgamation
(c) It is called external reconstruction
(d) It is called internal reconstruction

2. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited-

(a) ABC Ltd. and DEF Ltd. are known as the “Vendor Companies”
(b) ABC Ltd. and XYZ Ltd. are known as the “Vendor Companies”
(c) XYZ Ltd. and DEF Ltd. are known as the “Vendor Companies”
(d) XYZ Ltd. is known as the “Vendor Company”

3. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited -

(a) ABC Ltd. and DEF Ltd. are known as the “Purchasing Companies”
(b) ABC Ltd. and XYZ Ltd. are known as the “Purchasing Companies”
(c) XYZ Ltd. and DEF Ltd. are known as the “Purchasing Companies”
(d) XYZ Ltd. is known as the “Purchasing Company”

4. If the business of an existing company ABC Limited is taken over by an existing company PQR Limited, it is called -

(a) External reconstruction
(b) Internal reconstruction
(c) Absorption
(d) Amalgamation

5. If the business of an existing company ABC Limited is taken over by an existing company PQR Limited -

(a) ABC Ltd. is known as the “Vendor Company”; and PQR Ltd. is known as the “Purchasing Company”
(b) ABC Ltd. and PQR Ltd. are known as the “Purchasing Companies”
(c) PQR Ltd. is known as the “Vendor Company”; and ABC Ltd. is known as the “Purchasing Company”
(d) ABC Ltd. and PQR Ltd. are known as the “Vendor Companies”

6. If the business of ABC Limited, a loss-making company, is taken over by a new company ABC (New) Limited, it is called -

(a) Internal reconstruction
(b) Absorption
(c) External reconstruction
(d) Amalgamation

7. If the business of ABC Limited, a loss-making company, is taken over by a new company ABC (New) Limited -

(a) ABC Ltd. is known as the "Vendor Company"; and ABC (New) Ltd. is known as the "Purchasing Company"
(b) ABC Ltd. and ABC (New) Ltd. are known as the "Purchasing Companies"
(c) ABC (New) Ltd. is known as the "Vendor Company"; and ABC Ltd. is known as the "Purchasing Company"
(d) ABC Ltd. and ABC (New) Ltd. are known as the "Vendor Companies"

8. When the merger involves liquidation of two existing companies and formation of one new Company, it is called-

(a) Internal reconstruction
(b) Absorption
(c) External reconstruction
(d) Amalgamation

9. When the merger involves liquidation of one or more existing companies and formation of no new company, it is called-

(a) Internal reconstruction
(b) Absorption
(c) External reconstruction
(d) Amalgamation

10. When the merger involves liquidation of one existing sick company and formation of one new company, it is called -

(a) Internal reconstruction
(b) Absorption
(c) External reconstruction
(d) Amalgamation

11. A feature which is common in all cases of merger viz. absorption, amalgamation and external reconstruction is -

(a) Purchase of one company by another company
(b) Liquidation of at least two companies
(c) Formation of at least one new company

(d) Liquidation at least one existing company and formation of at least one new company

12. Under the Companies Act, 1956 -

(a) absorption' includes 'amalgamation'
(b) Amalgamation' includes 'absorption'
(c) Amalgamation' excludes 'absorption'
(d) Internal reconstruction' includes 'external reconstruction'

13. Accounting for amalgamation is governed by -

(a) Accounting Standard 1
(b) Accounting Standard 13
(c) Accounting Standard 14
(d) Accounting Standard 11

14. Accounting for absorption is governed by -

(a) Accounting Standard 1
(b) Accounting Standard 13
(c) Accounting Standard 14
(d) Accounting Standard 11

15. According to AS 14, Amalgamations fall into two categories -

(a) Amalgamation and absorption
(b) Merger and purchase
(c) Amalgamation and reconstruction
(d) External reconstruction and internal reconstruction

16. On amalgamation, Share issue Expenses A/c appearing on Assets side of the balance sheet of the vendor company -

(a) Is closed by debit to Realisation A/c
(b) Is closed by debit to Equity Shareholders A/c
(c) Is closed by debit to Profit & Loss A/c
(d) Is closed by credit to Equity Shareholders A/c

17. On amalgamation, Profit & Loss A/c (Dr.) balance of the vendor company –

(a) Is closed by debit to Realisation A/c
(b) Is closed by debit to Equity Shareholders A/c
(c) Is closed by credit to Equity Shareholders A/c
(d) Is closed by credit to Realisation A/c

18. On amalgamation, Debenture A/c appearing in the balance sheet of the vendor company -

(a) Is closed by credit to Purchasing Company A/c, if debentures are taken over by the purchasing company
(b) Is closed by credit to Realisation A/c, whether debentures are taken over by the new company or not
(c) Is closed by credit to Debenture holders A/c, if debentures are not taken over by the new Company
(d) Is closed by debit to Realisation A/c, whether debentures are taken over by the new company or not

19. On amalgamation, Provident Fund A/c appearing on the Liabilities side in the balance sheet of the vendor company -

(a) Is closed by credit to Purchasing Company A/c
(b) Is closed by credit to Realisation A/c
(c) Is closed by credit to Equity Shareholders A/c
(d) Is closed by debit to Realisation A/c

20. On amalgamation, Sinking Fund A/c appearing on the Liabilities side in the balance sheet of the vendor company -

(a) Is closed by credit to Purchasing Company A/c
(b) Is closed by credit to Realisation A/c
(c) Is closed by credit to Equity Shareholders A/c
(d) Is closed by debit to Realisation A/c

21. On amalgamation, if the dissolution expenses are paid as well as borne by the purchasing Company –

(a) Entries are passed in the books of the purchasing as well as the vendor company
(b) No entry is passed in the books of the vendor company
(c) No entry is passed in the books of the purchasing company
(d) No entry is passed in the books of the purchasing as well as the vendor company

22. On amalgamation, if pref. shares are settled at a premium -

(a) The premium is credited to Realisation A/c
(b) The premium is debited to Realisation A/c
(c) The premium is credited to Security Premium A/c
(d) The premium is debited to Capital Reserve A/c

23. On amalgamation, accounting procedure used by the vendor company -

(a) Is the same in all types of amalgamation

(b) Is different depending upon whether the amalgamation is in the nature of a merger or a purchase as defined by Accounting Standard 14
(c) Is different depending upon whether the companies are private or public
(d) Is different depending upon the amount of purchase consideration

24. On amalgamation, accounting procedure used by the purchasing company -

(a) Is the same in all types of amalgamation.
(b) Is different depending upon whether the amalgamation is in the nature of a merger or a purchase as defined by Accounting Standard 14
(c) Is different depending upon whether the companies are private or public.
(d) Is different depending upon the amount of purchase consideration.

25. All the assets and liabilities of the vendor company become the assets and liabilities of the purchasing company -

(a) If the amalgamation is in the nature of merger as defined under AS 14.
(b) If the amalgamation is in the nature of absorption as defined under the Companies Act.
(c) If the amalgamation is in the nature of external reconstruction as defined under the Companies Act.
(d) If the amalgamation is in the nature of purchase as defined under AS 14.

26. Shareholders holding not less than 90% of the face value of the equity share capital in the vendor company become equity shareholders in the purchasing company-

(a) If the amalgamation is in the nature of merger as defined under AS 14
(b) If the purchase consideration is calculated under payment method
(c) If the amalgamation is in the nature of external reconstruction as defined under the Companies Act.
(d) If the amalgamation is in the nature of purchase as defined under AS 14

27. The assets and liabilities of the vendor company are incorporated in the accounts of the purchasing company at book values -

(a) If the amalgamation is in the nature of merger as defined under AS 14
(b) If the amalgamation is in the nature of purchase as defined under AS 14
(c) If the purchase consideration is calculated under Net Assets method
(d) If the amalgamation is in the nature of external reconstruction as defined under the Companies Act

28. In the books of the purchasing company, the assets and liabilities of the vendor company are incorporated on the basis of their agreed values (i.e. either the book values or the fair values) -

(a) If the amalgamation is in the nature of merger as defined under AS 14

(b) If the amalgamation is in the nature of purchase as defined under AS 14
(c) If the purchase consideration is calculated under Net Assets method
(d) If the amalgamation is in the nature of external reconstruction as defined under the Companies Act

29. The difference between the purchase consideration and the net assets of the vendor company, if any, is either debited to the Goodwill Account or credited to the Capital Reserve Account -

(a) If the amalgamation is in the nature of merger as defined under AS 14
(b) If the amalgamation is in the nature of purchase as defined under AS 14
(c) If the purchase consideration is calculated under Net Assets method
(d) If the amalgamation is in the nature of external reconstruction as defined under the Companies Act

30. Under purchase method of amalgamation, the reserves of the vendor Company -

(a) Are not brought in the books of the purchasing company
(b) (except a statutory reserve) are not brought in the books of the purchasing company
(c) Are brought in the books of the purchasing company
(d) (Except a statutory reserve) are brought in the books of the purchasing company

31. Amalgamation Adjustment Reserve -

(a) Should be shown as a Fixed Asset in the balance sheet of the purchasing company
(b) Should be shown as a Fictitious Asset in the balance sheet of the vendor company
(c) Should be shown under Reserves and Surplus in the balance sheet of the purchasing company
(d) Should be shown as a Fictitious Asset in the balance sheet of the purchasing company

32. At the time of amalgamation, purchase consideration does not include -

(a) The sum which the transferee company will directly pay to the creditors of the transferor Company
(b) Payments made in the form of assets by the transferee company to the shareholders of the transferor company
(c) Preference shares issued by the transferee company to the preference shareholders of the transferor company
(d) preference shares issued by the transferee company to the equity shareholders of the transferor company

33. The asset which is not taken under the Net assets method of calculating purchase consideration is -

(a) Loose Tools
(b) Bills Receivables
(c) Machinery
(d) Share issue Expenses

34. Which of the following statements is false ?

(a) AS 11 should be applied in accounting for transactions in foreign currencies
(b) AS 11 deals with accounting for foreign currency transaction in the nature of forward exchange contracts
(c) AS 11 specifies the currency in which an enterprise should present its financial statements
(d) The principal issues in accounting for foreign currency transactions are to decide which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates

35. Average rate -

(a) Is the exchange rate at the balance sheet date
(b) Is the mean of the exchange rates in force during a period
(c) Is the ratio for exchange of two currencies
(d) Is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

36. Closing rate -

(a) Is the exchange rate at the balance sheet date
(b) Is the mean of the exchange rates in force during a period
(c) Is the ratio for exchange of two currencies
(d) Is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

37. Exchange rate -

(a) Is the exchange rate at the balance sheet date
(b) Is the mean of the exchange rates in force during a period
(c) Is the ratio for exchange of two currencies
(d) Is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction

38. Currency other than the reporting currency of an enterprise -

(a) Non-Reporting currency
(b) U.S. Dollars
(c) Foreign Currency
(d) Indian Rupees

39. Currency used in presenting the financial statements -

(a) Reporting currency
(b) Non-Foreign Currency
(c) Official Currency
(d) Indian Rupees

40. Money held and assets and liabilities to be received or paid in fixed or determinable amounts of money -

(a) Current items
(b) Non-monetary items
(c) Monetary items
(d) Forward Exchange Contract

41. A foreign currency transaction should be recorded, on initial recognition -

(a) In the reporting currency, by applying to the foreign currency the exchange rate between the reporting currency and the foreign currency at the date of the recognition
(b) In the Indian Rupees, by using the exchange rate between the Indian Rupee and the U.S. Dollars at the date of the transaction
(c) In the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction
(d) in the reporting currency, by applying to the foreign currency amount the average exchange rate between the reporting currency and the foreign currency during the financial year

42. Which of the following statements is false ?

(a) At each balance sheet date, foreign currency monetary items should be reported using the closing rate
(b) At each balance sheet date, non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction
(c) At each balance sheet date, non-monetary items, which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that existed when the values were determined
(d) At each balance sheet date, foreign currency monetary items should be reported using the

average rate during the year

43. Following is not an example of a monetary item -

(a) Cash
(b) Receivables
(c) Payables
(d) Fixed assets

44. Following is an example of a non-monetary item -

(a) Debtors
(b) Creditors
(c) Bank account
(d) Inventories

45. At each balance sheet date, non-monetary items, which are carried at fair value or other similar valuation denominated in a foreign currency, should be reported-

(a) Using the exchange rate at the date of the transaction
(b) Using the exchange rates that existed when the values were determined
(c) Using the closing exchange rate at the date of the balance sheet
(d) Using the average exchange rate during the financial year

46. At each balance sheet date, Foreign currency monetary items should be reported -

(a) Using the exchange rate at the date of the transaction
(b) using the average of the (i) exchange rate at the date of the transaction and (ii) closing exchange rate
(c) Using the closing exchange rate at the date of the balance sheet
(d) Using the lowest exchange rate during the financial year

47. The mean of the exchange rates in force during a period is known as -

(a) Average Rate
(b) Closing Rate
(c) Reporting Rate
(d) Fair Rate

48. The exchange rate at the balance sheet date is known as -
(a) Average Rate
(b) Closing Rate
(c) Non-monetary Rate
(d) Monetary Rate

49. Foreign currency is a currency -

(a) Used in recording the foreign transactions
(b) Used in presenting the foreign financial statements
(c) Other than the reporting currency of an enterprise
(d) Other than the Indian Rupee

50. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the -

(a) Average Rate
(b) Closing Rate
(c) Non-monetary Rate
(d) Monetary Rate

51. When a company is wound-up, all persons who ceased to be the shareholders within a year before the winding-up are placed in the -

(a) 'A' List of Contributories
(b) 'B' List of Contributories
(c) 'C' List of Contributories
(d) 'D' List of Contributories

52. Following is treated as over-riding preferential creditor -

(a) Retirement benefits of employees
(b) Retirement benefits to workers
(c) Salary due to employees exceeding ` 20,000
(d) Remuneration to investigator

53. Remuneration to investigator upon investigation of the affairs of company is treated as -

(a) Secured creditor
(b) Over-riding preferential creditor
(c) Preferential creditor
(d) Unsecured creditor

54. Amount of Govt. dues that arose within 12 months before the date of winding up is treated as -

(a) Secured creditor
(b) Over-riding preferential creditor
(c) Preferential creditor
(d) Unsecured creditor

55. Amount of Retirement benefits of employees exceeding ` 20,000 per employee is treated as -

(a) Secured creditor
(b) Over-riding preferential creditor
(c) Preferential creditor
(d) Unsecured creditor

56. Preference dividend in arrears on the date of winding up is -

(a) Treated as Secured creditor
(b) Treated as Over-riding preferential creditor
(c) Treated as Preferential creditor
(d) Added to Preference Share Capital

57. Amount of calls in advance is treated as -

(a) Secured creditor
(b) Asset not specifically pledged
(c) Preferential creditors
(d) Unsecured creditor

58. Accrued holiday remuneration becoming payable to any workman is treated as -

(a) Secured creditor
(b) Over-riding preferential creditor
(c) Preferential creditor
(d) Unsecured creditor

59. Liability for compensation under Workmen's Compensation Act is treated as -

(a) Secured creditor
(b) Over-riding preferential creditor
(c) Preferential creditors
(d) Unsecured creditors

60. If the remuneration to liquidator is payable as a percentage of collection -

(a) Include opening cash and bank balance
(b) Exclude closing cash and bank balance
(c) Exclude opening cash and bank balance
(d) Exclude both opening and closing cash and bank balance

61. If the remuneration to liquidator is payable on distribution -

(a) Exclude distribution to preferential and unsecured creditors and contributories

(b) Include distribution to preferential and unsecured creditors but exclude distribution to Contributories
(c) Exclude distribution to preferential creditors but include distribution to unsecured creditors and contributories
(d) Include distribution to preferential and unsecured creditors and contributories

62. All contributions payable during the 12 months next under the Employees State Insurance Act, 1948 -

(a) Are treated as overriding preferential creditors
(b) Are treated as preferential creditors unless the company is being wound up voluntarily for the purpose of reconstruction
(c) Are treated as unsecured creditors
(d) Are treated as preferential creditors unless the company is being wound up compulsorily by the Court

63. A contributory is a-

(a) Unsecured creditors
(b) Preferential creditors
(c) Shareholder
(d) Debenture holder

64. List 'A' in statement of affairs gives the list of -

(a) Assets specifically pledged
(b) Assets not specifically pledged
(c) Preferential creditors
(d) Unsecured creditors

65. List 'E' in statement of affairs gives the list of -

(a) Preferential creditors
(b) Debenture holders
(c) Unsecured creditors
(d) Secured creditors

66. Secured creditors are shown in the statement of affairs under -

(a) List A
(b) List B
(c) List C
(d) List D

67. Preferential creditors are shown in the statement of affairs under:

(a) List D
(b) List B
(c) List C.
(d) List A.

68. The proceeds of assets not specifically pledged and the surplus of the assets specifically pledged is first available for -

(a) Preferential creditors
(b) Unsecured creditors
(c) Legal charges, liquidator's remuneration and liquidation expenses
(d) Preference shareholders

69. Any sum due to an employee out of provident fund is an example of -

(a) Unsecured creditor
(b) Preferential creditors
(c) Secured creditor
(d) Partly secured creditors

70. Bills were discounted to the extent of Rs. 10,000 of which bills of Rs. 4,000 are likely to be dishonoured. Hence, the liability to rank in respect of these bills will be-

(a) Rs. 10,000
(b) Rs. 4,000
(c) Rs. 6,000
(d) Rs. 14,000

71. When the sale proceeds of pledged security is not sufficient to pay off secured creditors fully, the balance due to them should be added to -

(a) Unsecured creditors
(b) Preferential creditors
(c) Equity share capital
(d) Preference share capital

72. The underwriting commission in case of debentures as per the Companies Act shall not exceed -

(a) 5 % of issue price
(b) 10 % of the issue price
(c) 2.5 % of the issue price
(d) 2 % of the issue price

73. As per SEBI guidelines, the underwriting commission on equity shares -

(a) 10 % of the issue price
(b) 5 % of the issue price
(c) 2.5 % of the issue price
(d) 2 % of the issue price

74. The underwriting commission in case of ` 4 lakh preference shares capital subscribed to by the public, under Ministry of Finance guidelines, should not exceed -

(a) 2.5 %
(b) 1 %
(c) 2.00 %
(d) 1.5 %

75. According to the Companies Act the underwriting commission on shares should not exceed -

(a) 5 %
(b) 2.5 %
(c) 10 %
(d) 1 %

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