Sheth N.K.T.T. College of Commerce & Sheth J.T.T College of Arts, Thane

Department of Accountancy

T.Y.B.Com- Semester VI

Financial Accounting- Objective Questions

Chapter- I

Amalgamation, Absorption & External reconstruction

Multiple Choice Questions

1. When two or more companies carrying on similar business decide to combine, a new company is formed, it is known as .....

   (A) **Amalgamation** (B) Absorption
   (C) Internal reconstruction (D) External reconstruction

2. When one of the existing companies take over business of another company or companies, it is known as .....

   (A) Amalgamation (B) **Absorption**
   (C) Internal reconstruction (D) External reconstruction

3. While calculating purchase price, the following values of assets are considered

   (A) Book value (B) **Revised Value**
   (C) Average values (D) Market values

4. Shares received from the new company are recorded at -

   (A) Face value (B) Average price
   (C) **Market value** (D) None of the above

5. Which of the following statement is correct?
   (A) **The amount of Goodwill or Capital Reserve is recorded in the books of purchasing company only**
   (B) The amount of Goodwill or Capital Reserve is recorded in the books of vendor company only.
   (C) Goodwill = Net Assets – Purchase price
   (D) The face value of shares of purchasing company will be taken in to account while calculating purchase consideration.

6. The Amalgamation Adjustment Account appears in the books, it is shown under the heading of ..... in the balance sheet.

(A) Reserve and Surplus (B) Fixed Assets
(C) Investments (D) Miscellaneous Expenditure

7. In case of amalgamation, miscellaneous expenses are shown .....

(A) New Company Account **(B) Equity Shareholders Account**
(C) Cash Account (D) Realization Account

8. If the intrinsic values of shares exchanged are not equal, the difference is paid in .....

(A) Cash (B) Debenture
(C) Pref. share (D)Assets

9. In case of ....., one existing company takes over the business of another company and no new company is formed.

(A) Amalgamation **(B) Absorption**
(C) Reconstruction (D) None of the Above

10. The assets which is not taken under the net assets method of calculating Purchase Consideration is:

(A) Loose Tools (B) Bills Receivable
(C) Machinery **(D) Share issued expenses**

11. In amalgamation of two companies

(A) **Both companies lose their existence**
(B) Both companies continue
(C) Any one company continues

12. When purchasing company pays purchase consideration, it will be debited to

(A) Business purchase account
(B) Assets account
(C) Liquidator of vendor company's account
(D) Purchasing Company account

13. When the purchasing company bears the liquidation expenses, it will debit the expenses to _____

(A) Vendor Company's Account (B) Bank Account
(C) **Goodwill Account** (D) Debtors Account

14. As per AS-14 purchase consideration is payable to _____.

(A) Shareholders (B) Creditors
(C) Debenture holders (D) Bank

15. When the purchasing company does not take over a particular liability and the vendor company pays that liability, it will debit it to_____

(A) **Realisation Account** (B) Bank Account
(D) Liability Account (D) Creditors Account

16. When the Net Assets are less than the Purchase Consideration, the difference will be

(A) **Debited to Goodwill A/c** (B) Debited to General Reserve
(C) None of these (D) Debited to Capital Reserve

17. While calculating purchase consideration ..... values of assets is to be considered.

(A) Book value **(B) Revalued price** (C) Average price (D) Capital

18. Net Assets minus Capital Reserve is _____

(A) Goodwill (B) Total assets
(C) Purchase consideration (D) None of these

19. Himanshi Ltd. purchase consideration is Rs.22,345 and Net Assets Rs.6,568, then.....

(A) Goodwill Rs. 15,777 (B) Capital Reserve Rs. 15,777
(C) Goodwill Rs. 28,913 (D) Capital Reserve Rs. 28,913

20. The original amount of preference share capital should be transferred to ..... account in the time of amalgamation in the books of vendor co.

(A) Preference shareholders Account

(B) Capital Reserve Account

(C) Equity share capital Account

(D) Equity share capital Account

21. Both of the old companies will not exist in .....

(A) Internal reconstruction (B) Absorption
(C) External reconstruction (D) **Amalgamation**

22. When company purchases the business of another company ..... comes into existence.

(A) Amalgamation (B) **Absorption**
(C) External Reconstruction (D) Internal Reconstruction

23. When liquidation expenses is paid and borne by seller company then it is debited to _____

(A) Bank A/c (B) Goodwill A/c
(C) **Realisation A/c** (D) Capital Reserve A/c.

24. The shares received from the new company is recorded at_____

(A) Face value (B) **Market value**
(C) Average price (D) None of these

25. Kirti Co's Balance Sheet shows Fixed Asset Rs. 3,60,000. At the time of absorption calculation of Net Assets is 10% less than the market value, then market value of such fixed assets is .....

(A) Rs. 3,24,000 (B) **Rs. 4,00,000**
(C) Rs. 4,20,000 (D) None of these

26. If the market price of the shares to be given for Purchase Consideration at the time of absorption, ... of the share is to be determined

(A) Fair Value (B) Face Value
(C) Intrinsic Value (D) Yield Value

27. Net Assets of D.Co. for Purchase Consideration worth Rs. 4,00,000. At the time of absorption, the company has paid 32,000 equity shares each of Rs.10 each at 10% premium, then remaining cash will be -

(A) Rs. 48,000 (B) Rs. 84,000

(C) Rs. 80,000 (D) Rs. 90,000

28. Intrinsic value of each equity shares of the vendor company is Rs. 250 and that of the purchasing company is Rs. 400. The exchange ratio of shares on the basis of intrinsic value is -

(A) 2:1 (B) 8:8

(C) 8:5 (D) None of the above

29. Amalgamation of companies is governed by -

(A) AS -14 (B) AS-11
(C) AS- 13 (D) AS-9

30. Following is not a fixed asset -

(A) Goodwill **(B) Loose Tools**

(C) Copyright (D) Livestock

*All highlighted options are answer of the questions.

Chapter – II Foreign Currency Transactions

State whether True or False.

1. Exchange rate is the rate at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
2. Inventories is a non-monetary item.
3. A foreign currency transaction should be recorded, on initial recognition 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 recording.
4. Closing rate is the exchange rate at the close of the date on which a transaction takes place.
5. Foreign Currency is a currency other than the Indian rupee.
6. Monetary items are defined by AS 11 as assets and liabilities other than non-monetary items.
7. Reporting currency is the currency used in recording the financial transactions.

8. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at the closing exchange rates.
9. A foreign currency transaction arises when an enterprise buys or sells goods or services whose price is denominated in the reporting currency.
10. Average Rate is the mean of the exchange rates in force during a period.

Answer Key : TRUE - 2,10 **FALSE- 1,3,4,5,6,7,8,9**

Multiple Choice Questions :

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

2. Reporting currency is the currency used _____
   (a) In recording the financial transactions
   (b) In presenting the financial statements
   (c) In settling the financial transactions
   (d) None of the above

3. Monetary items _____
   (a) Are assets and liabilities to be received or paid in money
   (b) Are assets to be received in fixed or determinable amounts of money
   (c) Are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money
   (d) None of the above

4. 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 _____
   (a) Balance Sheet **(b) Transaction** (c) Settlement (d) None of the above

5. 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

Fill in the blanks

1. _____ difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

2. _____ rate is the ratio for exchange of two currencies.

3. _____ value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm‟s length transaction.

4. _____ items are assets and liabilities other than monetary items.

5. _____ currency is the currency used in presenting the financial statements.

6. Cash, receivable, and payable are examples of _____ items.

7. Fixed assets, inventories and investments in Equity shares are examples of _____ items.

8. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the _____ rate.

Answers: (1) Exchange, (2) Exchange, (3) Fair, (4) Non-monetary, (5) Reporting, (6)Monitory, (7) Non-monetary, (8) Closing

Chapter -III Liquidation of Companies

State whether TRUE or FALSE

1. Only an insolvent company can be liquidated.

2. In the Statement of Affairs , unpaid calls are to be included under assets.

3. A past member is not liable to make a contribution if liability was contracted after he ceased to be a member.

4. If the company is insolvent , interest on debentures is payable upto the date of actual

payment.

5. A contributory can only be present member of liquidated company.

6. Local taxes are an examples of secured creditors.

7. The liquidator is not entitled to claim remuneration on the cash balance unless otherwise given.

8. Preferential creditors are treated as fully secured creditors when they can be fully paid.

9. Surplus , if any , from the creditors having been secured on the assets specially pledged , is added to the estimated realisable value of the assets not specifically pledged.

10. If the remuneration to liquidator is payable on distribution , distribution to contributories is included.

Answer : TRUE- 2,3,7,9,10 FALSE- 1,4,5,6,8

Chapter – IV Underwriting of Shares and Debentures

1. When the underwriting commission becomes payable , the underwriter A/c is debited .

2. The underwriting commission is payable in cash .

3. Unmarked applications are known as direct applications.

4. Underwriting may be done by individuals , partnership , firms or joint stock companies.

5. The percentage of underwriting commission on shares applied to by public is same as allotted shares devolved on underwriters.

6. The underwriting commission is payable in cash alone.

7. Under firm underwriter g, the underwriters do not agree to purchase any shares.

8. The underwriters may be individuals , partnership firms or joint stock companies.

9. Unmarked applications can be distributed among the underwriters in the ratio of gross

liabilities.

10. Marked applications are also known as direct applications.

Answer: TRUE- 3,4,8,9 **FALSE- 1,2,5,6,7,10**

Chapter- V Limited Liability Partnership

1. Every partner is required to contribute towards the LLP in some manner as specified in LLP agreement.
2. Audit is not compulsory for all LLPs.
3. A LLP is a new form of legal business entity with unlimited liability.
4. The liability of each partner is limited to his agreed contribution in the Limited Liability Partnership.
5. Every Limited Liability Partnership must have at least two partners but there is no maximum limit on the numbers of partners.
6. LLP can raise money from the public.
7. LLP must Maintain books of accounts on accrual basis.
8. Company incorporated outside India can become a partner in a LLP.
9. Every partner of a limited liability partnership must have a minimum of Contribution of Rs. 1 Lakh.
10. Insolvency of a partner of LLP automatically results in its dissolution.

Answer : TRUE- 1,2,4,5,8,10 **FALSE-3,6,7,9**