

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

State whether TRUE or FALSE

1. Two or more companies combining to form a new company is called absorption.
2. In computing purchase consideration by 'net asset method' all assets including fictitious assets should be considered.
3. Under external reconstruction there is one liquidation and one formation.
4. In amalgamation of companies there are two or more liquidation and one formation.
5. Accounting standard (AS) 14 not distinguish between amalgamation and absorption.
6. Absorption is said to take place when an existing company takes over one or more existing companies.
7. On amalgamation , payment to creditors do not form part Purchase of Consideration.
8. External reconstruction is more or less same as that of amalgamation in the nature of purchase.
9. Under net assets method , accumulated profits should not form part of liabilities.
10. Amalgamation of companies is governed by AS 13.

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) $\text{Goodwill} = \text{Net Assets} - \text{Purchase price}$
(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
(C) 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 companycomes 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.

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.

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.

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.

Multiple Choice Questions:

1. If a default is made in delivering the annual return to the Registrar , the company is likely to face

- a) Compulsory winding up by the tribunal.
 - b) Voluntary winding by members.
 - c) Voluntary winding up by creditors.
 - d) None of the above
2. Following is treated as over – riding preferential creditor
- a) Retirement benefits of employees
 - b) Retirement benefits of workers
 - c) Salary due to employees exceeding Rs. 20,000
 - d) Remuneration to investigator
3. Amount of calls in advance is treated as
- a) Secured creditor
 - b) Preferential creditor
 - c) Asset not specifically pledged
 - d) Unsecured creditor
4. Liability for compensation under Workmen’s Compensation Act is treated
- a) Secured creditor
 - b) Preferential creditor
 - c) Over – riding preferential creditor
 - d) Unsecured creditor
5. Preference dividend in arrears on the date of winding up is
- a) Treated as Secured creditor
 - b) Treated as Preferential creditor
 - c) Treated as Over – riding preferential creditor
 - d) Added to Preference Share Capital
6. A contributory is a
- a) Unsecured creditor
 - b) Shareholder
 - c) Preferential creditor

- d) Debenture holder
7. Secured creditors are shown in the statement of affairs under
- a) List A
 - b) List B
 - c) List C
 - d) List D
8. List A in statement of affairs gives in the list of
- a) Assets specifically pledged
 - b) Assets not specifically pledged
 - c) Preferential creditors
 - d) Unsecured creditors
9. Any sum due to an employee out of provident fund is an example of :
- a) Unsecured creditors
 - b) Preferential creditors
 - c) Secured creditors
 - d) Partly secured creditor
10. When the liquidated company has adequate cash to pay off all liabilities , the interest on liabilities should be paid :
- a) Upto the date of commencement of insolvency proceedings
 - b) Upto the date of actual payment of liabilities
 - c) Upto the date of payment to shareholders
 - d) None of the these

Chapter – IV Underwriting of Shares and Debentures

State whether TRUE or FALSE

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.

Multiple Choice Questions

1. Unmarked application refer to
 - a) Firm under
 - b) Applications issued by the company
 - c) Applications bearing the stamp of underwriter
 - d) Applications from the public received directly by the company without bearing any stamp of underwriter
2. The underwriting commission is calculated on
 - a) Net liability of the share value
 - b) Firm underwriting value of the shares
 - c) Marked application of the share value
 - d) Issue price of the shares underwritten
3. When all the shares are underwritten by the underwriters, it is called
 - a) Firm underwriting
 - b) Partial underwriting
 - c) Complete underwriting

- d) None of the above
4. Ketan Ltd . issued shares of Rs. 1,000 each at Rs. 950. The Underwriting Commission will be paid on
- a) Rs. 1,000
 - b) Rs. 950
 - c) Rs. 1,950
 - d) Rs. 50
5. The Underwriting Commission in case of Preference Shares / Debentures beyond Rs. 5 lakhs as per SEBI guidelines , should not exceed
- a) 2 %
 - b) 2.5 %
 - c) 5 %
 - d) 1.5%
6. The underwriter is entitled to claim remuneration on
- a) The issue price of shares underwritten
 - b) The face value of shares actually purchased
 - c) The face value of shares not purchased by him
 - d) None of the above
7. If the whole of the issue of shares or debentures is underwritten it is known as
- a) Partial underwriting
 - b) Sole underwriting
 - c) Complete or Full underwriting
 - d) None of the above
8. Marked applications refers to
- a) Applications bearing the stamp of the underwriters
 - b) Applications carrying the signature of public who applied for shares
 - c) Applications carrying the stamp of company which offered the shares

- d) None of the above
9. If the part of the issue of shares or debentures is underwritten, it termed as
- a) Partial underwriting
 - b) Complete underwriting
 - c) Firm underwriting
 - d) None of the above
10. The underwriting commission in the case of debentures as per Companies Act , should not exceed :
- a) 5% of the price at which debentures are issued
 - b) 4% of the price at which debentures are issued
 - c) $2^{1/2}$ % of the price at which debentures are issued
 - d) None of the above

Chapter- V Limited Liability Partnership

State whether TRUE or FALSE

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.

Choose the correct option:

1. LLP should have minimum
 - a) 7 partners
 - b) 2 partners
 - c) 50 partners
 - d) 3 partners
2. The maximum number of partners LLP can have is
 - a) 7 partners
 - b) 50 partners
 - c) 2 partners
 - d) No limit
3. At least _____ of the designated partners of every limited liability partnership shall be a resident in India.
 - a) One
 - b) Two
 - c) Three
 - d) Seven
4. A partner of LLP has the following right , only if provided in the LLP agreement
 - a) Participate in the management of LLP
 - b) Get remuneration for participating in the management of LLP
 - c) Share equal profits in the LLP
 - d) Transfer his right to share in the profit / loss of the LLP
5. LLP is governed by
 - a) Partnership Act , 1932
 - b) Companies Act , 1956
 - c) Limited Liability Partnership Act , 2008
 - d) Companies Act , 2013

6. In the absence of LLP Agreement , the mutual rights of Partners and in relation to LLP will be determined as per schedule_____of the LLP Act 2008
- I
 - II
 - VI
 - VIII
7. Following can become the partner in LLP:
- Company incorporated outside India
 - LLP incorporated in India
 - Individuals' resident in India
 - Any of the above
8. A limited liability partnership whose turnover exceeds Rs ._____ is required to annually get their accounts audited by any Chartered Accountant in practice
- 40 lakh
 - 1 lakh
 - 25 lakh
 - 50 lakh
9. Every limited liability partnership shall have at least_____ designated partners who are individuals.
- 7
 - 50
 - 2
 - 3

References

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