

## **MGT401 – Financial Accounting II** **Midterm Examination (Spring 2010)**

Question No: 1 )Marks: 1 -Please choose one

**Which of the following type of the business is governed under the Partnership Act 1932 in Pakistan?**

- Sole-Proprietorship
- **Partnership page 3**
- Limited Companies
- Unlimited Companies

### **Partnership**

Is the type of business that is owned by more than one ~~person~~. These persons form a “Partnership Firm” through an agreement called “Partnership Agreement”. Partnership firms and agreements are governed by the Partnership Act 1932.

Question No: 2 )Marks: 1 -Please choose one

**Which of the following is/are not example of current liability?**

- Sundry Debtors
- Debentures
- Loan given to Mr. A ~~for shorter period~~ ➤ **All of the given options** ~~\_\_\_\_\_~~  
**page 110**

### **Current Liabilities:**

- ❖ Trade and ~~other~~ payables,
- ❖ Interest, profit, return or mark-up accrued on loans and other payables ❖  
Short term borrowings
- ❖ Current portion of long term borrowings ❖ Current portion of long  
term murabaha ❖ Provision for taxation

Question No: 3 )Marks: 1 -Please choose one

**Which of the following are the resources controlled by the entity as a result of a past event from which future economic benefits are expected to flow to the entity?**

- **Assets**
- Gains ➤ Liabilities
- Expenses

### **Assets**

Resources Controlled by the entity As a result of a past event from which future economic benefits are expected to flow to the entity

Question No: 4 )Marks: 1 -Please choose one

**All of the following are the assets of the firm except**

- A building owned by the firm
- Goods in transit
- Money owed to the firm by it's debtors
- **Money which the firm has borrowed and has not yet been repaid.**

Question No: 5 )Marks: 1 -Please choose one

**Which of the following is related to the qualitative characteristics that make financial information useful?**

- Reliability only ➤ Relevancy only
- **Both Reliability and Relevancy**
- Comparability

Financial information must be complete within the restrictions of materiality and cost, to be reliable. Omission may cause information to be misleading.

Question No: 6 )Marks: 1 -Please choose one

**Which of the following statements is true regarding Going Concern Concept?**

- The Business is profitable
- The assets of the Business are valued at Market Value
- The business ~~will~~ continue until the Directors decide to close it
- **The Business will continue its working**

**Going Concern**

The concept implies that the business will continue to operate for the foreseeable future

Question No: 7 )Marks: 1 -Please choose one

**Under which of the following assumptions, the Financial Statements are to be prepared?**

- Future Assumptions
- Past Assumptions
- **Accrual Basis and Going Concern Basis** page 98 ➤ Accrual Basis Assumption only

**Financial statements are prepared on the following assumptions.**

- ❖ Accruals basis
- ❖ Going concern

**Q. 08: Which one of the following is not a physical asset?**

- Term Finance Certificates
- Loan Agreements
- Trade Receivables
- **Goodwill** page 86

**Other examples: Physical Assets:** ❖

TFC, ❖ Loan Agreements, ❖  
Trade Receivables / Payables.

Question No: 9 )Marks: 1 -Please choose one

**Which one of the following is not the example of Financial Instrument?**

- Share Capital ➤ Loans Payable
- Debentures
- **Inventories** page 1

Question No: 10 )Marks: 1 -Please choose one

**The firm uses diminishing balance calculating Depreciation. The vehicle sold after two years. The sale resulted profit. What was the sale price of the**

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**method for costing 20,000 was neither in loss or Vehicle?**

- 7,200
- 12,000 ➤ **12,800**
- 16,000

Question No: 11 )Marks: 1 -Please choose one

**Which of the following is/are not included in the disclosure requirement of Trade Debts with respect to the Companies Ordinance 1984?**

- Amount due in respect of goods sold
- Amount due in respect of services rendered
- **Amount due in respect of other contractual obligation** ➤ Amount due which are in nature of loans or advances.

Question No: 12 )Marks: 1 -Please choose one

**A firm has two categories of stock. The cost and Net Realizable Value (NRV) of each is as follows:**

	Cost	NRV
Category 1	Rs. 35,000	Rs. 22,000
Category 2	Rs. 22,000	Rs. 25,000

**What amount will be disclosed.**

- 44,000

- 47,000
- 57,000
- 60,000

Question No: 13 )Marks: 1 -Please choose one

**Which of the following method is suitable for calculating the cost of inventory when actual costs of individual units of merchandise can be determined from the accounting records?**

- FIFO Method
- LIFO Method
- Weighted Average Method
- **Specific Identification Method** page-58

**The specific identification methods is needed in order to achieve a proper matching of sales revenue with the cost of goods sold.**

Question No: 14 )Marks: 1 -Please choose one

**Which of the following authority regulates/governs the functioning of Companies?**

- **Securities & Exchange Commission of Pakistan** page 207
- Federal Government
- Ministry of Finance
- All of the Given Options

**Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.**

Question No: 15 )Marks: 1 -Please choose one

**Which of the following is true about the meeting of Directors?**

- **The quorum for a meeting of Directors of a listed company should not less than 1/3 of their members or four which is greater.**
- The quorum for a meeting of Directors of a listed company should not less than 1/3 of their members or four which is lesser.
- The quorum for a meeting of Directors of a listed company should not less than 1/2 of their members or four which is greater.
- The quorum for a meeting of Directors of a listed company should not less than 1/2 of their members or four which is lesser.

Question No: 16 )Marks: 1 -Please choose one

**Which of the following is true about the Companies Limited by shares?**

- Company has limited shares to offer
- Shareholders of the Company are limited

- **Liability of Shareholders is limited** page 4
- Liability of Shareholders is unlimited

### Companies Limited

"company limited by shares" means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

Question No: 17 )Marks: 1 -Please choose one

**Proper Books of Accounts are kept by every company under which of the following section of Companies Ordinance 1984?**

- **230**
- 233
- 184
- 110

Question No: 18 )Marks: 1 -Please choose one

**Which of the following is not attributable to the Property Plant & Equipment?**

- Costs of site preparation

- **Administration and other general overhead costs** page 22
- Initial delivery and ~~handling~~ charges
- Installation and ~~Assembly~~ cost

The following costs **will not be part of the cost** of property, plant and equipment unless they can be attributed directly to the asset's acquisition, or bringing it into its working condition.

- Administration and other general overhead costs
- Start-up and similar pre-production costs
- Initial operating losses before the asset reaches planned performance

Question No: 19 )Marks: 1 -Please choose one

**Which of the following expenditure can not be capitalized?**

- Initial Composition Cost
- Cost of adding Air conditioner to the Computer Room
- Cost of Adding extra RAM to Computer
- **New tyres placed on a motor car**

### Revenue Expenditure

General maintenance repairs redecoration

<http://www.sac->

[malta.org/Accounts/Form4/11CapitalExpenditureRevenueExpenditure.pdf](http://www.sac-malta.org/Accounts/Form4/11CapitalExpenditureRevenueExpenditure.pdf)

Question No: 20 )Marks: 1 -Please choose one

**ABC (Pvt) Limited is engaged in production of an asset. The production started on July 31, 2007. The Production completed on July 31, 2008. The works manager checked the asset and required some minor modifications. These modifications were completed on August 30, 2008. The Asset was delivered to Works Manager on September 10, 2008. The production started from such asset on October 01, 2008. When should capitalization cease?**

- July 31, 2007
- July 31, 2008 ➤ **August 30, 2008**
- October 01, 2008

Question No: 21 )Marks: 1 -Please choose one

**Which of the following is an identifiable non-monetary asset without physical substance?**

- Tangible Asset
- **Intangible Asset** page 36
- Floating Asset
- Circulating Asset

**Definition of an Intangible asset:**

An intangible asset is an identifiable ~~Non-Monetary~~ Asset without physical substance held for use in production or supply of goods or services, for rentals to others, or for administrative purposes.

Question No: 22 )Marks: 1 -Please choose one

**Which of the following is the application of research findings or other knowledge to a plan design for the production of new or substantially improved material, devices products, processes, systems or services before the start of commercial production or use?**

- Applied Research
- Business Research
- **Development** page 40
- Accounting

In contrast with research costs development costs are incurred at a later stage in a project, and the probability of success should be more apparent. Examples of development costs include:

- a) The design, construction and testing of pre-production or pre-use prototypes and models
- b) The design of tools, jigs, moulds, and dies involving new technology
- c) The design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production
- d) The design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services

Question No: 23 )Marks: 1 -Please choose one

**Which of the following is an example of Intangible Asset?**

- Preliminary Expenses
- **Copy rights**
- Investments
- Discounts on issue of shares

Question No: 24 )Marks: 1 -Please choose one

**Which of the following statement is true under the Cost method for recognition of investments in associated companies?**

- **Any distribution of profits by the investee company is recorded as an income**
- Any distribution of profits by the investee company is recorded as an expense
- Any distribution of profits by the investor company is recorded as an income
- Any distribution of profits by the investor company is recorded as an expense

Question No: 25 )Marks: 1 -Please choose one

**Which of the following IAS is related to Financial Instruments Disclosure and Presentation?**

- IAS 27
- IAS 28
- IAS 31
- **IAS 32**            **page-74**

Measurement, Presentation and Disclosure of Long Term Investments is governed by following standards:

- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 31, Interests in Joint Ventures
- IAS 32, Financial Instruments Disclosure and Presentation**
- IAS 39, Financial Instruments Recognition and Measurement

Question No: 26 )Marks: 1 -Please choose one

**Which of the following is related to IAS 31?**

- Consolidated and Separate Financial Statements
- **Interest in Joint Venture**            **page 74**
- Financial Instruments Disclosure and Presentation
- Financial Instruments Recognition and Measurement

**IAS 31, Interests in Joint Ventures**

Question No: 27 )Marks: 1 -Please choose one

**Which of the following is true with respect to the disclosure requirement of Investment in Associate?**

- **Explanations when investments are less than 20% are accounted for by the equity method or when investments of more than 20% are not accounted for by the equity method.**
- Explanations when investments are less than 10% are accounted for by the equity method or when investments of more than 10% are not accounted for by the equity method.
- Explanations when investments are less than 10% are accounted for by the equity method or when investments of more than 20% are not accounted for by the equity method.
- Explanations when investments are less than 20% are accounted for by the equity method or when investments of more than 10% are not accounted for by the equity method.

Question No: 28 )Marks: 1 -Please choose one

**Which of the following is true with respect to the Disclosure requirement in Consolidated Financial Statements?**

- **The nature of relationship between the parent and subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than 1/2 of the voting power page 74**
- The nature of relationship between the parent and subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than 1/3 of the voting power
- The nature of relationship between the parent and subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than 1/4 of the voting power
- The nature of relationship between the parent and subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than 1/5 of the voting power

**Disclosures required in Consolidated Financial Statements:**

The nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power; The reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;

**PAPER NO 2**

**MGT401 – Financial Accounting II  
Midterm Examination 2010  
Solved and Composed**

**By ADNAN AWAN [adnanawan6@gmail.com](mailto:adnanawan6@gmail.com)**



Question No: 1 )Marks: 1 -( Please choose one

In case of a single member company \_\_\_\_\_ person(s) is (are) required to be nominated to takeover the company in case of a death of the member. ► One

► **Two** page 4

► Three

► Four

### Single Member Companies

In case of a single member company two persons are required to be nominated to takeover the company in case of the death of the member.

Question No: 2 )Marks: 1 -( Please choose one

Company should be termed as a \_\_\_\_\_ of another company if ~~other~~ company holds more than 50% of its shares or has the power to appoint more than 50% of its directors.

► Associated

► **Subsidiary** page 12

► Joint Venture

► None of the given options

### Subsidiary Companies

As per the Companies Ordinance 1984, a ~~company sh~~ould be termed as a subsidiary of another company if the other company holds more than 50% of its shares or has the power to appoint more than 50% of its directors

Question No: 3 )Marks: 1 - ~~Please cho~~ose one Goodwill

is most appropriately classified as:

➤ A fixed asset ► **An intangible asset**

➤ A fictitious ~~liability~~

➤ A semi-fixed ~~asset~~

**Intangible asset** ❖ Goodwill; ❖ Patents, Copyright, Trade Marks and Designs; and ❖ Others (to be specified).

Question No: 4 )Marks: 1 -Please choose one

The capital maintenance concept implies that:

➤ The capital of a business should be kept intact by not paying out dividends.

➤ **A business should invest its profits in the purchase of capital assets.** Page 106

➤ Fixed assets should be properly maintained.

➤ Profit is earned only if the value of an organization's net assets or its operating capability has increased during the accounting period.

### Capital Maintenance:

Financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invented capital or the purchasing power of invested capital.

Question No: 5 )Marks: 1 -Please choose one

Which one of the following is an example of Conversion Cost?

▶ **Labour and factory overheads** page 56

- ▶ Labour and work in process
- ▶ Work in process and finished goods
- ▶ Factory overhead and work in progress

**(Conversion costs include labour and factory overheads).**

Question No: 6 )Marks: 1 -Please choose one

Which of the followings are among the non-current assets

?

- ▶ Tangible and intangible assets
- ▶ Operating assets
- ▶ Financial assets of a long term nature
- ▶ **All of the given options** page 17

Question No: 7 )Marks: 1 -Please choose one

Which one of the following is the concept ~~of the capital~~ maintenance?

- ▶ Financial capital maintenance
- ▶ Physical capital maintenance
- ▶ **Both Physical and Financial capital maintenance** page 106
- ▶ None of the given options

**There are two concepts of capital maintenance**

: a) Financial Capital ~~Maintenance~~ b) Physical Capital ~~Maintenance~~

Question No: 8 )Marks: 1 - Please choose one

Movement of capital issued and reserves are presented through which of the following statement?

- ▶ Cash flow statement
- ▶ Statement of changes in equity
- ▶ Income statement
- ▶ **Balance sheet**

Question No: 9 )Marks: 1 -Please choose one

A maximum limit of the amount of the capital that a company can issue is mentioned in the Memorandum of Association and Article of Association of the company is called:

▶ **Authorized capital**

- ▶ Issued capital
- ▶ Subscribed capital
- ▶ Paid up capital

**Authorized Capital:**

A maximum limit of the amount of capital that a company can issue is mentioned in the Memorandum and Articles of Association of the company.

Question No: 10 )Marks: 1 -Please choose one

Cost of inventories will consist of which of the following costs?

- ▶ Purchase cost
- ▶ Costs of conversion
- ▶ Installation costs

▶ **All of the given options** page 49

**Cost of Inventories:**

• The cost of inventories will consists of all costs of:

- a) Purchase
- b) Costs of Conversion
- c) Other costs incurred in bringing the inventories to their location and condition.

Question No: 11 )Marks: 1 -Please choose one

Cash discounts are received on early payment of the outstanding amount. These discounts are conditional and are not reduced from the value of the inventory.

▶ **True** page 57

▶ False

⊗

**Cash discounts**

Are received on early payment of the outstanding amount. These discounts are conditional and are not reduced from the value of the inventory

Question No: 12 )Marks: 1 - Please ~~choose one~~

In the rare cases of conflict between an IAS and the Framework, the Framework will prevail.

▶ **True** page 97

▶ False

**“The Framework is not an IAS and so does not overrule any individual IAS. In the (rare) cases of conflict between an IAS and the Framework, the IAS will prevail.”**

Question No: 13 )Marks: 1 - Please choose one

Current assets will also include marketable securities if they are expected to be realized within twelve months of the Balance Sheet date.

▶ **True** page 92

▶ False

**Current assets will also include marketable securities if they are expected to be realized within twelve months of the balance sheet date. If expected to be realized later, they should be included in non-current assets.**

Question No: 14 )Marks: 1 -Please choose one

Significant influence is the ability to participate and to control the financial and management affairs of the enterprise.

▶ True

▶ False page 12

**Significant influence is the ability to participate but not to control the financial and management affairs of the enterprise**

Question No.15 )Marks: 1 -Please choose one There is no concept of capital in:

- Sole proprietorship
- **NGO's / NPO's** page 116
- Partnership
- Public Limited Company

### **NGO's / NPO's •**

In case of NGO's and NPO's there is no concept of capital.

- Funds introduced by the sponsors and any accumulated surplus are shown as a General Fund

Question No. 16 )Marks: 1 -Please choose one

The surplus arising from revaluation of fixed assets of an entity is ~~shown~~:

- Separately in the balance sheet.
- As indirect income in income statement
- **Added in the fixed asset** page 27
- None of the given options

### **Revaluation [Section 235]**

Where a company revalues its fixed assets, ~~the increase in~~, or sums added by writing up of, the value of such assets as appearing in the ~~books~~ of accounts of the company shall be transferred to an account to be called "Surplus on Revaluation of Fixed Assets Accounts"

Question No. 17 )Marks: 1 -~~Please choose~~ one

Marks : 1

A Company uses FIFO method to evaluate its stock. The information for the stock is as follows:

- Opening stock ~~was~~ 10 units at 2 each.
- Purchases were ~~30~~ units at Rs. 3 each, and
- Then issues of 12 units were made, followed by issues of 8 units.

Closing stock is valued at:

- Rs. 50
- Rs. 58
- **Rs. 60**
- Rs. 70

### **Receipts Units**

Opening units =  $10 \times 2 = 20$

New purchase =  $30 \times 3 = 90$

### **Issued Units Under FIFO Method**

$10 \times 2 = 20$

2\* 3=6

8\* 3=24

### Units Left

40-20=20

20\*3=60

Question No. 18 )Marks: 1 -Please choose one

The cost of inventories of a service provider does not consist of: ➤

Costs of personnel directly engaged in providing the service ➤

Supervisory personnel ➤ Attributable overheads.

➤ **Labour and other costs relating to sales** page 55

### Cost of Inventories of a Service Provider:

• The cost of inventories of a service provider consists primarily of the labour and other costs of personnel directly engaged in providing the service, supervisory personnel, attributable overheads.

**Labour and other costs relating to sales and general administrative personnel** are not included but are recognized as expenses in the period in which they are incurred.

Question No. 19 )Marks: 1 -Please choose one

Which of the following authority regulates/governs the functioning of Companies?

➤ **Securities & Exchange Commission of Pakistan** page 207

➤ Federal Government

➤ Ministry of Finance

➤ All of the Given Options

Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

Question No. 20

**According to the Benchmark Treatment, Which of the following method is used for stock valuation?**

**Select correct option:**

➤ FIFO Method or LIFO Method

➤ LIFO Method

➤ **FIFO or Weighted Average Method** page 51

➤ Specific Identification Method

### Methods of Stock Valuation

**two treatments are used for stock valuation methods:**

• **Benchmark Treatment**

Cost of inventories should be assigned using FIFO or Weighted Average Method

• Allowed Alternative – The cost of inventories may be measured using LIFO method.

Question No. 21 )Marks: 1 -Please choose one

Which of the following sections of the Companies Ordinance 1984 is related to the Statutory Meeting?

Select correct option:

- **Section 157** page 9
- Section 158
- Section 159
- Section 160

### **Statutory Meeting–**

Only public limited companies are require to hold statutory meetings. Requirements for statutory meeting are listed in Section 157 of the Companies Ordinance 1984.

Question No. 22 )Marks: 1 -Please choose one

Which of the following is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding?

Select correct option:

- **Research**
- Development
- Audit
- Accounting

Question No. 23 )Marks: 1 -Please choose one

Which of the following is true about the Companies-Limited by shares?

- Company has limited shares to offer
- Shareholders of the Company are limited
- **Liability of Shareholders is limited** page 4
- Liability of Shareholders is unlimited

### **Companies Limited**

"company limited by shares" ~~means a~~ company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

Question No. 24 )~~Marks:~~ 1 -Please choose one Statuary

Meeting is required to be held within:

- **3to 6 months** page 9
- 1to 3 months
- 6to 9 months
- 9to 12 months

### **Statutory Meeting**

It is required to be held with in 3 to 6 months of the incorporation of the company

Question No.25 )Marks: 1 -Please choose one

Which of the following may result from an inability to sell a financial asset quickly at close to its fair value? ➤ Price Risk

- **Liquidity Risk** page 87
- Interest Rate Risk
- Currency Risk

**Liquidity Risk:**

The risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result for an inability to sell a financial asset quickly at close to its fair value.

Question No.26 )Marks: 1 -Please choose one

A complete set of financial statements include:

- A balance sheet
- A statement of changes in financial position & Notes, other statements and explanatory material. ➤ An income statement
- **All of the given options.** Page 97

Question No. 28 )Marks: 1 -Please choose one

Which one of the following is an example of Intangible Assets?

Preliminary expenses

**Copy rights** page 36

Investments

Discount on issue of shares

**Intangible assets:** ❖

Goodwill

❖ Patent, Copyrights, Trademarks and Designs ❖

Others (to be specified)

## PAPER NO 3

**MGT401- Financial Accounting II  
MIDTERM EXAMINATION 2009**

**Solved and Composed By**

**ADNAN AWAN**

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**Question No: 1** Marks: 1 -Please choose one

( Marks: 1 ) - Please choose one

According to fourth schedule of companies ordinance which of the stock-in-trade is **not** part of the current asset

- Stock of raw material
- Work in process ➤ Stock of finished goods
- **None of the given options**

### Classification Fourth Schedule

Goodwill

Patent, Copyrights, Trademarks and Designs

Others (to be specified)

**Question No: 2** Marks: 1 -Please ~~choose~~ one

Which of the following refers ~~to the~~ relation between persons who have agreed to share the profits of a business carried ~~on by all~~ or any of them acting for all?

- Sole - proprietorship
- **Partnership** page 3
- Company
- Trust

### Partnership –

Is the type of business that is owned by more than one person.

**Question No: 3** Marks: 1 -Please choose one

How many days before notice is served to the members for holding statutory meeting?

- 60days
- 30days
- 40days
- **21days** page 9

### Statutory Meeting

A 21 days notice is given to members for holding the meeting.

**Question No: 4** ( Marks: 1 ) - Please choose one

: Which of the following statement is true regarding Going Concern Concept?

- The Business is profitable
- The assets of the Business are valued at Market Value
- The business will continue until the Directors decide to close it
- **The Business will continue its working**

### Going Concern

The concept implies that the business will continue to operate for the foreseeable future

**Question No: 5** ( Marks: 1 ) - Please choose one

Which of the following IAS deals with the term Significant Influence in associate companies?

- IAS 27 ➤ **IAS 28**



- IAS 01
- IAS 07

### Associated Companies – IAS 28

- IAS 28 defines An Associate through identification of influence,

#### Question No: 6( Marks: 1 ) - Please choose one

If the holding company owns more than 50% ~~but less than~~ 100% shares of the subsidiary company then the subsidiary type will be termed as:

- **Partially Owned Subsidiary**
- Wholly Owned Subsidiary
- Direct Subsidiary
- Indirect Subsidiary

#### Partially Owned Subsidiaries: •

If the holding company ~~owns more than~~ 50% but less than 100% shares of the subsidiary then the subsidiary is termed as ~~Partial~~ **Partially Owned Subsidiary**.

#### Question No: 7( Marks: 1 ) - Please choose one

If the holding company owns 100% shares of the subsidiary company then the subsidiary type will be termed as:

- Partially Owned Subsidiary
- **Wholly Owned Subsidiary** page 13
- Direct Subsidiary
- Indirect Subsidiary

**Whereas if the holding company owns 100% shares of the subsidiary company then the subsidiary is called a Wholly Owned Subsidiary.**

#### Question No: 8( Marks: 1 ) - Please choose one

Whom of the following are responsible to prepare the annual accounts of the company under Companies Ordinance 1984?

- **Directors of the company** page 14
- Shareholders of the company
- Internal Auditors of the company
- Managers of the company

**It is the responsibility of the directors of every company to prepare annual accounts of the company.**

#### Question No: 9( Marks: 1 ) - Please choose one

Which one of the following cost is directly attributable to the Property, Plant and Equipment?

- Costs of site preparation
- Administration and other general overhead cost
- Costs of conducting business in a new location or with a new class of customer ( including costs of staff training)
- **All of the given options**

**Question No: 10( Marks: 1 ) - Please choose one**

Which of the following is(are) related with the IAS 23?

- Qualifying Assets
- Amount to be capitalized
- Capitalization period
- **All of the given options**

**IAS 23** generally requires that the borrowing costs ~~should be~~ charged as an expense. However it allows capitalization of these costs as an alternate treatment, if certain conditions are met. Borrowing costs are interest and other ~~costs incurred~~ in connection of borrowing of funds.

**Question No: 11( Marks: 1 ) - Please choose one**

Which of the following is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use? ➤

**Applied research**

- Development
- Business research
- Accounting

**Question No: 12**

**( Marks: 1 ) - Please choose one**

Which one of the following is an example of Intangible Assets?

- Preliminary expenses
- **Copy rights page 36**
- Investments
- Discount on issue of shares

intangible assets:

Goodwill

Patent, Copyrights, Trademarks and Designs

Others (to be specified)

**Question No: 13( Marks: 1 ) - Please choose one**

Goodwill must be shown in the financial statement of company limited by liability under the heading of:

- Current Assets
- **Intangible Fixed Assets page 36**
- Tangible Fixed Assets
- None of the given options

**Question No: 14( Marks: 1 ) - Please choose one**

Which of the following information must be disclosed in case of loan and advances to subsidiary companies?

- The name of each borrower
- Amount of loans and advances
- The terms of loan and the particulars of collateral security held
- **All of the given options page 45**

**Question No: 15( Marks: 1 ) - Please choose one**

If:

Then:

Direct Material Cost is Rs. 15,000

Factory overhead is Rs. 5,000

Prime Cost is Rs. 30,000

What is the amount of Manufacturing Cost?

- Rs. 10,000
- Rs. 20,000
- **Rs. 35,000**      **prime cost = direct material + direct labor**
- Rs. 45,000      **cost of manufacturing = prime cost+ FOH**

**Question No: 16( Marks: 1 ) - Please choose one**

Which of the following is **NOT** represent the Cost of goods sold? ➤

Sales – Gross Profit

- Opening Stock + Purchases – Return Outwards – Closing Stock
- Cost of goods ~~Manufactured~~ + Opening Finished Goods Inventory – Closing Finished Goods Inventory
- **Opening Stock + Purchases – Return Inwards – Closing Stock**

**Question No: 17( Marks: 1 ) - Please choose one**

Which of the following is **NOT** represent the Prime Cost?

- **Total Factory Cost – Direct Labour Cost**      page 56
- Direct Material Cost + Direct Labour Cost
- Total Factory Cost – Factory Overheads
- Conversion Cost – Factory Overheads + Direct Material Costs

**Question No: 18( Marks: 1 ) - Please choose one**

**Which of the following are the resources controlled by the entity as a result of a past event from which future economic benefits are expected to flow to the entity?**

- **Assets**
- Gains
- Liabilities
- Expenses

**Assets**

**Resources Controlled by the entity As a result of a past event from which future economic benefits are expected to flow to the entity**

**Question No: 19 ( Marks: 1 ) - Please choose one**

Which one of the following IAS is related to Financial Instruments Recognition and Measurement?

- IAS 31
- IAS 32
- **IAS 39**      page 165

- IAS 27

### Investment in Associates

Investments in associates are also subject to IAS 36 “Impairment of Asset” and IAS 39 “Financial Instruments Recognition and Measurement”,

#### Question No: 20 ( Marks: 1 ) - Please choose one

Which one of the following is TRUE with respect to ~~the Financial Instrument~~? ➤ **It is an agreement that gives rise to both a Financial Asset of one entity and Financial Liability of another entity. ———Page 85**

- It is an agreement that gives rise to ~~both a Financial Expense of one entity and Financial Asset of another entity.~~
- It is an agreement that gives ~~rise to both a Financial Income of one entity and Financial Asset of another entity.~~
- It is an agreement that gives rise to both a Financial Expense of one entity and Financial Income of ~~another~~ entity.

**The objective of IAS 32 is To enhance financial statement users’ understanding of the •**

**Financial Instrument is an agreement that gives rise to both a Financial Asset of one entity and Financial Liability of another entity.**

#### Question No: 21( Marks: 1 ) - Please choose one

Which one the following risk arises when financial instruments fluctuate due to change in market prices?

- **Price Risk** page 86
- Currency Risk
- Interest Risk
- Liquidity Risk

#### Price risk

Is the risk that the value of the financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all securities traded in the market

#### Question No: 22( Marks: 1 ) - Please choose one

Which of the following may result from an inability to sell a financial asset quickly at close to its fair value?

- Price Risk
- **Liquidity Risk** page 87
- Interest Rate Risk
- Currency Risk

#### Liquidity Risk:

The risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result for an inability to sell a financial asset quickly at close to its fair value.

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following is/are shown under the heading of Stock-in-Trade in Balance Sheet?

- Raw Materials ➤ Work in Process
  - Finished Goods
  - **All of the given options**
- page 93

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following is NOT shown under the heading of Stock-in-Trade in Balance Sheet?

- Raw Materials
- Packing Materials
- Finished Goods
- **Spares**

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following represents the objective of the financial statements?

- To provide the information about the business objectives
- To provide the information about the business liabilities
- To provide the information about the business assets
- **To provide the information about the Financial position, Financial performance and Changes in financial position**

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following represents the Financial Information presented in the financial statements relating to the assets and incomes should not be overstated.

- Consistency
- Profit
- Materiality
- **Prudence** page 100

**Prudence:**

Uncertainties in preparation and presentation of financial statements are recognized through disclosures and application of prudence. Prudence does not, however, allow the creation of hidden reserves or excessive provisions, understatement of assets or income or overstatement of liabilities or expenses.

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which one of the following statement is TRUE regarding Going concern concept?

- The business is profitable
- The assets of the business are valued at market value
- A business will continue until the directors decide to close it
- **The business will continue its working**

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following is/are represent(s) the “Losses” with respect to the IASB’s Framework?

- Disposal of assets at a value lesser than its carrying amount
- Discharge of liabilities at a value higher than its carrying amount
- Disposal of assets at a value lesser than its book amount
- **All of the given options**

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is a component of current liabilities?

- Assets subject to finance lease
- Debentures
- **Provision for Taxation** page-109
- Loans taken for more than five years

**Current Liabilities**

- Short Term Finances
- Current Maturity of Obligation
- Creditors, Accrued and Other liabilities
- Provision for Taxation

**Question No: 30( Marks: 1 )- Please choose one** The amount of the ~~issued~~ share capital of a company is: ➤ Always ~~equal to~~ the amount of its authorized share capital

- **Equal to the amount of its issued preference share capital**
- Equal to the reserves of the company
- None of the given options

## PAPER NO 4

**MGT401 – Financial Accounting II  
Midterm Examination (Spring 2010)**

**Solved and Composed**

**By ADNAN AWAN [adnanawan6@gmail.com](mailto:adnanawan6@gmail.com)**

**Question No: 1( Marks: 1 ) - Please choose one**

Which of the following type of the business is governed under the Partnership Act 1932 in Pakistan?

- Sole-Proprietorship
- **Partnership**

- Limited Companies
- Unlimited Companies

Question No: 2 )Marks: 1 -( Please choose one

**Which of the following is/are not current liability?**

example of

- Sundry Debtors
- Debentures
- Loan given to Mr. A for shorter period
- **All of the given options**

Question No: 3 )Marks: 1 -( Please choose one

Which of the following are the resources controlled by the entity as a result of a past event from which future economic benefits ~~are expected~~ to flow to the entity?

- **Assets**
- Gains ➤ Liabilities
- Expenses

Question No: 4 )Marks: 1 -(Please choose one

**All of the following ~~are the~~ assets of the firm except**

- A building ~~owned~~ by the firm
- Goods in ~~transit~~
- Money owed to the firm by it's debtors
- **Money which the firm has borrowed and has not yet been repaid.**

Question No: 5 )Marks: 1 -( Please choose one

**Which of the following is related to the qualitative characteristics that make financial information useful?**

- Reliability only ➤ Relevancy only
- **Both Reliability and Relevancy**
- Comparability

Question No: 6 )Marks: 1 -( Please choose one

**Under which of the following assumptions, the Financial Statements are to be prepared?**

- Future Assumptions
- Past Assumptions
- **Accrual Basis and Going Concern Basis**
- Accrual Basis Assumption only

Question No: 7 )Marks: 1 -( Please choose one

**Which one of the following is not a physical asset?**

- Term Finance Certificates
- Loan Agreements

- Trade Receivables
- **Goodwill**

Question No: 8 )Marks: 1 -( Please choose one

**Which one of the following is not the example of Financial Instruments?**

- Share Capital ➤ Loans Payable
- Debentures
- **Inventories**

Question No: 9 Marks: 1 -( Please choose one

**The firm uses diminishing balance method for calculating Depreciation. The vehicle costing 20,000 was sold after two years. The sale resulted neither in loss or profit.**

**What was the sale price of the Vehicle?**

- 7,200
- 12,000 ➤ **12,800**
- 16,000

Question No: 10 )Marks: 1-( Please choose one

**Which of the following is/are not included in the disclosure requirement of Trade Debts with respect to the Companies Ordinance 1984?**

- Amount due in respect of goods sold
- Amount due in respect of services rendered
- **Amount due in respect of other contractual obligation**
- **Amount due which are in nature of loans or advances. Page 61**

Question No: 11 )Marks: 1 -( Please choose one

**A firm has two categories of stock. The cost and Net Realizable Value (NRV) of each is as follows:**

	Cost	NRV
Category 1	Rs. 35,000	Rs. 22,000
Category 2	Rs. 22,000	Rs. 25,000

**What amount will be disclosed.**

- **44,000**
- 47,000
- 57,000
- 60,000

Question No: 12 )Marks: 1 -( Please choose one

**Which of the following method is suitable for calculating the cost of inventory when actual costs of individual units of merchandise can be determined from the accounting records?**

- FIFO Method
- LIFO Method
- Weighted Average Method
- **Specific Identification Method**



Question No: 13 )Marks: 1 -( Please choose one

**Which of the following authority regulates/governs the functioning of Companies?**

- **Securities & Exchange Commission of Pakistan**
- Federal Government ➤ Ministry of Finance ➤ All of the Given Options.

**Select correct option:**

- Goodwill ➤ **Investment**
- Trademark
- Patent

- Company ~~has limited~~ shares to offer
- Shareholders of the Company are limited ➤ **Liability of Shareholders is limited**
- Liability of Shareholders is unlimited

Question No: 16 )Marks: 1 -( Please choose one

**Proper Books of Accounts are kept by every company under which of the following section of Companies Ordinance 1984?**

- **230**
- 233
- 184
- 110

Question No: 17 )Marks: 1 -( Please choose one

**Which of the following is not attributable to the Property Plant & Equipment? ➤**

- Costs of site preparation
- **Administration and other general overhead costs**
- Initial delivery and handling charges
- Installation and Assembly cost

Question No: 18 )Marks: 1 -( Please choose one

**Which of the following expenditure can not be capitalized? ➤**

- Initial Composition Cost
- Cost of adding Air conditioner to the Computer Room
- Cost of Adding extra RAM to Computer
- **New tyres placed on a motor car**

Question No: 19 )Marks: 1 -( Please choose one

**ABC (Pvt) Limited is engaged in production of an asset. The production started on July 31, 2007. The Production completed on July 31, 2008. The works manager checked the asset and required some minor modifications. These modifications were**

completed on August 30, 2008. The Asset was delivered to Works Manager on September 10, 2008. The production started from such asset on October 01, 2008. When should capitalization cease?

- July 31, 2007
- July 31, 2008
- **August 30, 2008**
- October 01, 2008

Question No: 20 )Marks: 1 -( Please choose one

Which of the following is an identifiable non-monetary asset without physical substance?

- Tangible Asset
- **Intangible Asset**
- Floating Asset
- Circulating Asset

Question No: 21 )Marks: 1 -( Please choose one

Which one of the following is the concept of the capital maintenance?

- ▶ Financial capital maintenance
- ▶ Physical capital maintenance
- ▶ **Both Physical and Financial capital maintenance** page 106
- ▶ None of the given options

**There are two concepts of capital maintenance**

: a) Financial Capital Maintenance b) Physical Capital Maintenance

Question No: 22 )Marks: 1 -( Please choose one

Preparation and presentation of Financial Statements are governed by: Select correct option:

- Companies Ordinance 1984
- International Accounting Standards
- International Financial Reporting Standards
- **All of the given options**

Question No: 23 )Marks: 1 -( Please choose one

Allowances for trade debtors are an example of which accounting concept? Select correct option:

- Accruals
- Consistency
- Prudence
- **Matching**

Question No: 24 )Marks: 1 -( Please choose one

Which of the following statement is true under the Cost method for recognition of investments in associated companies?

- **Any distribution of profits by the investee company is recorded as an income**
- Any distribution of profits by the investee-company is recorded as an expense
- Any distribution of profits by the investor-company is recorded as an income
- Any distribution of profits by the investor company is recorded as an expense

Question No: 25 )Marks: 1 -( Please choose one

**Which of the following IAS is related to Financial Instruments Disclosure and Presentation?** ➤ IAS 27

- IAS 28
- IAS 31
- **IAS 32**

Question No: 26 )Marks: 1 -( Please choose one

**Which of the following is related to IAS 31?**

- Consolidated and Separate Financial Statements
- **Interest in Joint Venture**
- Financial Instruments Disclosure and Presentation
- Financial Instruments Recognition and Measurement

Question No: 27 )Marks: 1 -( Please choose one **Which of the following costs can be capitalized?**

**Select correct option:**

Purchases of assets financed through issue of debentures

Assets that are not currently in use because of excess capacity

**Assets not currently undergoing activities necessary to prepare for intended use**

Assets intended for sale or use that are produced as discrete projects

Question No: 28 )Marks: 1 -( Please choose one **All**

**of the following are Fixed assets EXCEPT:**

**Select correct option:**

- Machinery ➤ Freehold land
- Leasehold land
- **Marketable securities**

Which of the following may consist of more than 20 persons in case of partnership?

- Firms of Lawyers
- Firms of Doctors
- Firms of Associates
- **All of the given options**

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following entities is profit oriented entity?

- NGOs
- Trust
- Societies
- **Sole - proprietorship PAGE 3**

**Question No: 3( Marks: 1 ) - Please choose one**

Which of the following types of business can maintain the secrecy in all business matters?

- **Sole-proprietorship page 3**
- Partnership
- Public Limited Company
- Private Limited Company

**Sole Proprietorship –**

Is the type of business is owned by a single individual. There may a number of employees of the business but ownership and risks and returns rest with a single owner. All assets and liabilities of the business are the assets and liabilities of the owner

**Question No: 4( Marks: 1 ) - Please choose one**

What maximum number of shareholders is allowed to form a Private Limited Company?

- 20
- **50 page 4**
- 10
- 07

**The maximum numbers of shareholders allowed in a private limited company is 50.**

**Question No: 5( Marks: 1 ) - Please choose one**

Which of the following is TRUE about the meeting of directors?

- The quorum for a meeting of directors of listed company shall not be less than 1/3 of their member or four which ever is greater.
- **The quorum for a meeting of directors of listed company shall not be less than 1/3 of their member or four which ever is lower.**
- The quorum for a meeting of directors of listed company shall not be less than 1/2 of their member or four which ever is lower.
- The quorum for a meeting of directors of listed company shall not be less than 1/2 of their member or four which ever is greater.

**Question No: 7( Marks: 1 ) - Please choose one**

If “A” is subsidiary of “B” and “B” is a subsidiary of “C” then which of the following statement is TRUE?

- **“A” is subsidiary of “C”** page 12 indirect subsidiary
- “A” is not a subsidiary of “C” ➤ “C” is holding company of “B” only
- “C” is not holding company of “B”

A is a direct subsidiary of B  
 B is a direct subsidiary of C

Whereas there is one indirect relationship exist between C and A. Although C does not hold any shares in A, but still A would be its **Indirect Subsidiary** as A is a subsidiary of B which in turn is a subsidiary of C.

**Question No: 8( Marks: 1 ) - Please choose one**

What is the treatment of Depreciation in accounting?

- Treated as a reserve
  - **Treated as an expense** page 23
  - Treated as a surplus
  - Treated as a Liability

**Depreciation**

Depreciation is usually treated as an expense, but not where it is absorbed by the entity in the process of producing other assets. For example, depreciation of plant and machinery is incurred in the production of goods for sale (inventory items).

**Question No: 9( Marks: 1 ) - Please choose one**

Which of the following is a component of current liabilities?

- Assets subject to finance lease
- Debentures
- **Provision for Taxation** page 109
- Loans taken for more than five years

**Current Liabilities**

- Short Term Finances
- Current Maturity of Obligation
- Creditors, Accrued and Other liabilities
- Provision for Taxation

**Question No: 10( Marks: 1 ) - Please ~~choose~~ one** Why do

businesses charge depreciation ~~on~~ their fixed assets? ➤ To ensure that sufficient cash is available to replace the assets ➤ To show the realizable value of the assets in the Balance Sheet

- **To spread the cost of ~~the~~ assets over their estimated useful life**
- To show when the asset must be replaced

**Question No: 11( Marks: 1 ) - Please choose one**

Which of the following is **NOT** Qualifying Asset? ➤

Power plan being in the process of manufacture

- Inventories requiring a substantial period for manufacturing
- Special order for a special inventory that will be manufactured in 5 months

➤ **Inventory routinely manufactured**

**Question No: 12( Marks: 1 ) - Please choose one**

Which of the following is(are) the Qualifying Asset?

- Manufacturing plants
- Power generation facilities
- Inventories requiring a substantial period of time to bring them to a saleable condition
- **All of the given options page 33**

**Examples of qualifying assets:**

- Inventories that require a substantial period of time to bring them to a saleable condition.
- Manufacturing plants
- Power generation facilities.
- Investment properties.

**Question No: 13( Marks: 1 ) - Please choose one**

Which of the following should not be recognized as an asset?

- Patent rights
- **Internally Generated Goodwill**
- Copy rights
- Prepaid expenses

**Question No: 14( Marks: 1 ) - Please choose one**

Which of the following is **TRUE** with respect to the Periodic Inventory System?

- Receipt of inventory is debited to Stock Account
- Receipt of inventory is Credited to Stock Account
- **Receipt of inventory is debited to Purchase Account**
- Receipt of inventory is Credited to Purchase Account

**Periodic Inventory System**

- Receipt of inventory is Debited to purchases account.
- No recording is made for individual issue in the General Ledger
- Available balance of stock in trade at the end of the period is valued according to selected policy and closing stock is recorded by Debiting the Stock Account and Crediting Trading Account

**Question No: 15( Marks: 1 ) - Please choose one**

If:

Then:

Direct Material Cost is Rs. ~~15,000~~

Factory overhead is Rs. 5,000

Manufacturing Cost ~~is Rs. 30,000~~

What is the amount of Prime Cost?

- **Rs. 25,000**
- Rs. 20,000
- Rs. 35,000
- Rs. 45,000

**Question No: 16( Marks: 1 ) - Please choose one**

According to fourth schedule of Companies Ordinance 1984, a manufacturing company made the treatment of loose tools and spare would be valued at:

- **Lower of cost or NRV** page 63
- Actual price ➤ Market price
- Cost price

**Question No: 17( Marks: 1 ) - Please choose one**

Which one of the following IAS is related to Financial Instruments Disclosure and Presentation?

- IAS 28
- **IAS 32** page 74
- IAS 27
- IAS 31

Measurement, Presentation and Disclosure of Long Term Investments is governed by following standards:

- IAS 27, Consolidated and Separate Financial Statements
- IAS 28, Investments in Associates
- IAS 31, Interests in Joint Ventures
- IAS 32, Financial Instruments Disclosure and Presentation**
- IAS 39, Financial Instruments Recognition and Measurement

Which one of the following is related to the IAS 27?

- **Consolidated and Separate Financial Statements** page 74
- Interest in Joint Venture
- Financial Instruments Disclosure and Presentation

**Question No: 18( Marks: 1 ) - Please choose one**

- Financial Instruments Recognition and Measurement

**Question No: 19( Marks: 1 ) - Please choose one**

Which of the following may result from an inability to sell a financial asset quickly at close to its fair value?

- Price Risk
- **Liquidity Risk** page 87
- Interest Rate Risk ➤
- Currency Risk

**Liquidity Risk:**

The risk that an entity with financial instruments ~~it will encounter~~ difficulty in raising funds to meet commitments associated ~~with~~ with them. Liquidity risk may result from an inability to sell a financial asset ~~at~~ at its fair value.

**Question No: 20( Marks: 1 ) - Please choose one**

Cash in transit is shown in the balance sheet under the head of:

- Fixed Assets
- **Current Assets** **page 64**
- Intangible Assets
- Foot Notes

**Question No: 21( Marks: 1 ) - Please choose one**

Which of the following is shown under the heading of Stores and Spares in Balance Sheet?

- Raw Materials ➤
- Work in Process
- Finished Goods





**Oil and Lubrication page 93**

**STORES AND SPARES**

Stores

Spare

Loose Tool ;

Oil and Lubricants

Civil Stores

**Question No: 22( Marks: 1 ) - Please choose one**

Which of the following is **NOT** shown under the heading of Stores and Spares in Balance Sheet?

- Oil and Lubrication
- Civil Stores
- Loose Tools
- **Doubtful Debts page 93**

**STORES AND SPARES**

Stores

Spare

Loose Tool ;

Oil and Lubricants

Civil Stores

**Question No: 23( Marks: 1 ) - Please choose one**

The cost of a file is charged off as an ~~expense~~ expense, for the year in which cost is incurred even though it would still be used for ~~more~~ more than one accounting period. This is an example of which of the following concept?

- Consistency
- **Matching** — ➤ Going concern
- Materiality

Matching should be take place, i.e. the revenue and expenses relating to the same transaction should be recognized at the same time. It is usually easy to estimate expenses at the date of sale (e.g. warranty costs, shipment costs, etc).

**Question No: 24( Marks: 1 ) - Please choose one**

The purpose of the framework under IAS-Board is to: ➤ Make sure that every organization is following its goal

- Make sure that every organization is following IAS
- **Assist the Board of the IASB in the development of future IASs and in its review of existing IASs.**
- Assist the directors of the companies about the financial goal of the company



**Question No: 25( Marks: 1 ) - Please choose one**

All of the following are assets of a firm **EXCEPT**:

- A building owned by the firm
- Goods in transit
- Money owed to the firm by its debtors
- **Money which the firm has borrowed and has not yet repaid**

**Question No: 26( Marks: 1 ) - Please choose one**

Which of the following consist of money owing for goods supplied to the firm and for expenses & loans?

- Assets ➤ Capital ➤ Liabilities
- **Income**

**Question No: 27( Marks: 1 ) - Please choose one**

Which of the following is an example of current liability?

- **Bank Overdraft**
- Stock
- Goodwill
- A loan repayable in two years

**Yes, a bank overdraft are classified as a current liability.**

**What happens here is withdrawls from the bank ~~exceed~~ deposits. The lending institution, usually the bank, would allow an extension of credit in such a case. The company is usually expected to pay within short-term and it ~~results~~ in negative balance in company's bank account. That is the reason for the overdraft being classified as a current liability.**

Read more: [http://wiki.answers.com/Q/Is\\_a\\_bank\\_overdraft\\_an\\_liability#ixzz1aAeUgn8G](http://wiki.answers.com/Q/Is_a_bank_overdraft_an_liability#ixzz1aAeUgn8G)

**Question No: 28( Marks: 1 ) - Please choose one**

Which one of the following is **TRUE** with respect to the capital of a business?

- Capital = ~~Total~~ Assets – Net Loans
- **Capital = Total Assets – Total Liabilities**
- Capital = Total Assets – Long Term Liabilities
- Capital = Total Assets - Current Assets

**Capital of a business**

Current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot

➤ of working capital will be more successful since they can expand and improve their operations.

**Question No: 29( Marks: 1 ) - Please choose one**

Which of the following is **TRUE** for equity of a Public Limited Company?

- Equity = Total Assets – Total Liabilities
- Equity = Share Capital + General Reserves – Revenue Reserves
- **Equity = Share Capital – General Reserves + Revenue Reserves** ➤
- Equity = Authorized Capital + Reserves

**Total Shareholder Equity**

**Share capital + Reserves + Unappropriated profit**

**Question No: 30( Marks: 1 ) - Please choose one**

Which of the following is **TRUE** with respect to the Capital section of the balance sheet for a sole-proprietorship?

- **Opening Capital + New Capital + Profit for the year = Closing Capital** page 116
- Closing Capital + New Capital + Profit for the year = Opening Capital
- Opening Capital + Loss for the year = Closing Capital
- Opening Capital + Profit for the year + Drawings = Closing Capital