

MCQ on Corporate Accounting-I

**Corporate Accounting is the compass guiding corporations
through the economic wilderness**



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CORPORATE ACCOUNTING-I

UNIT –I

1. What is the primary purpose of equity shares?
a) Debt financing b) Asset acquisition
c) **Equity participation** d) Interest payments
2. Equity shares represent ownership in a _____
a) Debt instrument b) **Company**
c) Government bond d) Bank
3. Which term is synonymous with equity shares?
a) Debentures b) Bonds
c) **Common stock** d) Preference shares
4. Equity shareholders are also known as _____
a) Creditors b) **Owners**
c) Debtors d) Lenders
5. What is the characteristic feature of equity shares?
a) Fixed dividend b) Priority in repayment
c) **Voting rights** d) Convertibility
6. Equity shareholders receive dividends based on _____

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- a) Fixed rate b) **Profitability of the company**
c) Interest rates d) Inflation rates

7. Which feature distinguishes equity shares from preference shares?

- a) Fixed dividend b) **Voting rights**
c) No ownership rights

8. Equity shares represent a claim on the company's _____

- a) **Assets** b) Liabilities
c) Expenses d) Revenues

9. What is the risk associated with equity shares?

- a) **Market risk** b) Fixed returns
c) Priority in repayment d) Credit risk

10. Equity shareholders bear the risk of _____

- a) **Losing their entire investment**
b) Fixed returns
c) Priority in repayment
d) Government intervention

11. Equity shares provide a residual claim on _____

- a) Assets b) Liabilities
c) **Profits** d) Debts

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12. Equity shares can be converted into _____
a) Debentures b) Bonds
c) Preference shares d) **None of the above**
13. What is the redemption feature of equity shares?
a) They are not redeemable
b) They are redeemed at a fixed date
c) They are redeemed based on profitability
d) They are redeemed at the holder's request
14. Which regulatory body governs equity markets in many countries?
a) WHO (World Health Organization)
b) SEC (Securities and Exchange Commission)
c) IMF (International Monetary Fund)
d) WTO (World Trade Organization)
15. Equity shares are traded on:
a) The bond market
b) The commodity market
c) The stock market
d) The foreign exchange market
16. What is the maturity period of equity shares?
a) Fixed b) Short-term
c) Variable d) **indefinite**

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17. Equity shareholders have a claim on the company's assets after _____

- a) **Creditors** b) Debtors
- c) Bondholders d) Employees

18. Which financial statement reflects the equity position of a company?

- a) Income statement
- b) Cash flow statement
- c) **Balance sheet**
- d) Statement of cash flows

19. Dividends on equity shares are paid out of _____

- a) Loan proceeds **b) Retained earnings**
- c) Debenture issuance d) Government grants

20. Equity shareholders benefit the most when the company experiences _____

- a) High profitability** b) Low market demand
- c) Increased debt d) Decreased market share

21. When shares are issued at their nominal or face value, it is known as _____

- a) Premium b) Discount
- c) **Par** d) None of the above

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22. If the issue price of shares is higher than their face value, it is termed as _____

- a) **Premium** b) Discount
- c) **Par** d) Market value

23. What happens when shares are issued at a price lower than their face value?

- a) Premium b) **Discount**
- c) Par d) Market value

24. The amount received in excess of the face value of shares is recorded in which account?

- a) Share Capital b) **Securities Premium**
- c) General Reserve d) Debentures

25. At what stage is the securities premium recorded in the balance sheet?

- a) **On the date of issue**
- b) On the date of allotment
- c) On the date of payment
- d) When the premium is realized

26. What is the primary purpose of issuing shares at a premium?

- a) To attract investors
- b) **To raise additional capital**
- c) To maintain liquidity
- d) To reduce the company's liabilities

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27. When shares are issued at a discount, the discount is usually treated as _____

- a) Income b) An asset
- c) **A liability** d) A loss

28. Which of the following is a reason for issuing shares at a discount?

- a) To reward existing shareholders
- b) To raise additional capital
- c) **To attract new investors**
- d) To reduce the company's debts

29. The amount by which the face value exceeds the issue price is termed as _____

- a) Premium **b) Discount**
- c) Face value d) Market value

30. Which section of the Companies Act regulates the issue of shares at a discount?

- a) Section 61 **b) Section 52**
- c) Section 79 d) Section 42

31. In the context of equity shares, what does "face value" represent?

- a) Current market price **b) Nominal value**

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- c) Premium amount d) Discount amount

32. What is the usual method of accounting for the issue of shares at a premium?

- a) Crediting Share Capital account
b) Crediting Securities Premium account
c) Debiting Securities Premium account
d) Debiting Share Capital account

33. What is the term for the difference between the issue price and the nominal value of shares?

- a) Face value b) Market value
c) Premium d) Discount

34. If a company issues shares at a discount; it must comply with the conditions specified in _____

- a) Section 42 of the Companies Act
b) Section 79 of the Companies Act
c) Section 52 of the Companies Act
d) Section 61 of the Companies Act

35. What is the primary purpose of issuing shares at a discount?

- a) To reward shareholders b) To raise capital
c) To attract investors d) To pay off debts

36. The amount received in excess of the face value of shares is transferred to _____

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- a) Capital Reserve**
- b) General Reserve
- c) Profit and Loss Account
- d) Debenture Redemption Reserve

37. When shares are issued at a premium, the premium amount is shown on the _____

- a) Liabilities side of the balance sheet**
- b) Assets side of the balance sheet
- c) Income statement
- d) Shareholder's equity statement

38. What is the legal implication of issuing shares at a discount without following the prescribed rules?

- a) No legal consequences
- b) Fine for the company
- c) Imprisonment of directors**
- d) Shareholders can sue the company

39. Shares issued at a discount are recorded at _____

- a) Face value
- b) Issue price**
- c) Face value minus discount
- d) Face value plus discount

40. The authorization to issue shares at a discount is granted by _____

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- a) Board of Directors
- b) Shareholders in a general meeting**
- c) Company Secretary
- d) Registrar of Companies

41. When shares are issued, and the entire amount is payable by the shareholders in one lump sum, it is known as _____

- a) Installment Basis
- b) Deferred Payment
- c) Full Consideration**
- d) Discounted Basis

42. What is the primary advantage of issuing shares on a full consideration basis?

- a) Easy for shareholders to afford
- b) Quick infusion of capital**
- c) Allows for installment payments
- d) Increases shareholder loyalty

43. When shares are issued on an installment basis, the unpaid amount is recorded in which account?

- a) Share Capital
- b) Calls-in-Arrears**
- c) Installment Account
- d) Securities Premium

44. On the installment basis, the first call is usually made when _____

- a) Shares are issued**
- b) Half of the face value is paid

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- c) A specific period has passed
- d) Shareholders request it

45. If a shareholder fails to pay the installment amount, what action can the company take?

- a) Forfeit the shares**
- b) Reduce the face value
- c) Cancel the shares
- d) Convert to preference shares

46. What is the purpose of issuing shares on an installment basis?

- a) To encourage quick payment
- b) To increase shareholder equity
- c) To attract investors
- d) To reduce the financial burden on shareholders**

47. When shares are issued on an installment basis, the total amount to be paid is known as _____

- a) Face Value**
- b) Call Money
- c) Authorized Capital
- d) Called-up Capital

48. Which account is credited when the final call is made on shares issued on an installment basis?

- a) Share Capital**
- b) Calls-in-Arrears
- c) Installment Account
- d) Securities Premium

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49. The installment amount for shares is typically paid in _____

- a) **Equal installments**
- b) Varying amounts
- c) Lump sum
- d) Shares are paid in full, no installments

50. On an installment basis, what is the maximum number of calls that can be made?

- a) One b) Two
- c) **Three** d) It depends on the company's policy

51. If a shareholder misses the first call on shares issued on an installment basis, what is the status of their shares?

- a) **Forfeited** b) Redeemed
- c) Convertible d) Irredeemable

52. In the context of installment payments, what does "Calls-in-Arrears" refer to?

- a) Amount paid by shareholders
- b) **Amount unpaid by shareholders**
- c) Total face value of shares
- d) Premium on shares

53. When shares are issued on an installment basis, the company has the right to:

- a) Increase the installment amount

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- b) Decrease the face value
- c) Forfeit shares for non-payment**
- d) Issue bonus shares

54. Which type of shareholders benefits the most from installment payments?

- a) Small investors**
- b) Institutional investors
- c) Promoters
- d) Preference shareholders

55. The purpose of making calls on shares issued on an installment basis is to:

- a) Increase share prices
- b) Generate profits for the company
- c) Collect the unpaid amount**
- d) Attract more investors

56. What is the term used to describe the unpaid amount on a call that a shareholder has not paid when it is due?

- a) Calls in advance
- b) Calls in arrear**
- c) Dividends
- d) None of the above

57. Calls in arrear represent _____

- a) Money paid in advance by shareholders
- b) Unpaid calls by shareholders**
- c) Dividends received by shareholders
- d) Both a and c

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58. When a shareholder pays more than the amount due for a call, it is known as _____

- a) Calls in arrear **b) Calls in advance**
- c) Dividends d) None of the above

59. What happens when a shareholder pays in advance for calls?

- a) The excess amount is refunded
- b) The excess amount is adjusted against future calls
- c) The company keeps the excess amount as profit
- d) Both a and b**

60. Calls in advance are recorded as a liability on the _____

- a) Balance sheet** b) Income statement
- c) Cash flow statement d) None of the above

61. Which of the following statements is true regarding calls in arrear?

- a) They represent additional payments made by shareholders
- b) They are recorded as an asset on the balance sheet
- c) They indicate that shareholders have not fully paid their calls**
- d) Both a and b

62. How are calls in arrear treated in the financial statements?

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- a) Recorded as income
- b) Recorded as an expense
- c) Recorded as a liability on the balance sheet**
- d) None of the above

63. Calls in advance are considered as _____

- a) Assets**
- b) Liabilities
- c) Equity
- d) None of the above

64. What is the effect of calls in arrear on a shareholder's rights?

- a) Increases voting rights
- b) Decreases voting rights**
- c) No impact on voting rights
- d) Transfers voting rights to another shareholder

65. When a shareholder fails to pay calls in arrear, the company may _____

- a) Forfeit the shares
- b) Sell the shares to recover the amount
- c) Issue a legal notice to the shareholder
- d) All of the above**

66. Calls in advance are considered a prepayment for _____

- a) Dividends
- b) Interest
- c) Future calls**
- d) Share capital

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67. Which financial statement reflects the calls in advance and calls in arrear?

- a) Income statement b) Cash flow statement
- c) Balance sheet** d) Statement of changes in equity

68. What is the primary purpose of recording calls in advance and calls in arrear?

- a) To calculate interest
- b) To determine the share price
- c) To assess the financial position of the company**
- d) All of the above

69. Calls in advance are usually represented by_____

- a) Positive numbers** b) Negative numbers
- c) Zero d) Fractions

70. How are calls in arrear adjusted when the shareholder later pays the amount?

- a) Decrease in liability** b) Increase in liability
- c) Increase in equity d) Decrease in equity

71. Which term is used for the legal process of forfeiting shares due to non-payment of calls?

- a) Liquidation b) Reconciliation
- c) Forfeiture** d) Redemption

72. Calls in advance may be utilized for_____

- a) Operating expenses b) Issuing dividends

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- c) Acquiring assets** d) All of the above

73. Calls in arrear are a sign of _____

- a) Financial strength **b) Financial distress**
c) High profitability d) None of the above

74. When a shareholder fails to pay calls, the company may issue a _____

- a) Warning letter b) Dividend
c) Call option **d) Notice of forfeiture**

75. How are calls in advance treated when the actual call is made?

- a) Converted into equity**
b) Adjusted against dividends
c) Refunded to the shareholder
d) Transferred to retained earnings

76. What is the consequence of a shareholder failing to pay the call money on shares?

- a) Refund of paid amount
b) Allotment of additional shares
c) Forfeiture of shares
d) Issuance of bonus shares

77. When shares are forfeited, what happens to the amount already paid by the shareholder?

- a) It is refunded **b) It is forfeited**

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- c) It is used to issue bonus shares
- d) It is transferred to reserves

78. Forfeited shares are recorded on the company's books as _____

- a) **Assets**
- b) Liabilities
- c) Revenue
- d) Expenses

79. What is the primary purpose of reissuing forfeited shares?

- a) **To raise additional capital**
- b) To reduce the number of outstanding shares
- c) To increase the ownership of existing shareholders
- d) To pay off company debts

80. Reissued shares are typically sold at _____

- a) **A discount**
- b) A premium
- c) Face value
- d) No specific price

81. Which of the following statements is true about the reissue of forfeited shares?

- a) Reissued shares must always be sold at a premium
- b) Reissued shares must always be sold at a discount
- c) **Reissued shares can be sold at any price determined by the company**
- d) Reissued shares cannot be sold

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82. What is the term used to describe the difference between the forfeited value and the reissue price of shares?

- a) Premium **b) Discount**
- c) Overdraft d) Dividend

83. Reissued shares are credited to which account before being sold?

- a) Forfeited Shares Account**
- b) Share Capital Account
- c) Capital Reserve Account
- d) General Reserve Account

84. The discount on reissued shares is treated as _____

- a) An income for the company
- b) A liability
- c) A reduction in share capital
- d) A capital reserve**

85. When shares are forfeited, what entry is made to reflect the forfeiture?

- a) Debit Forfeited Shares Account, Credit Share Capital Account**
- b) Debit Share Capital Account, Credit Forfeited Shares Account
- c) Debit Forfeited Shares Account, Credit Cash Account

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d) Debit Cash Account, Credit Forfeited Shares Account

86. Reissue of forfeited shares can only occur after obtaining approval from _____

- a) Auditors
- b) Shareholders
- c) Board of Directors**
- d) Government authorities

87. Which type of reserve is created when the discount on reissued shares is credited?

- a) Capital Reserve**
- b) Revenue Reserve
- c) General Reserve
- d) Dividend Reserve

88. What is the main reason for reissuing forfeited shares at a discount?

- a) To attract new investors**
- b) To compensate for the losses incurred on forfeiture
- c) To increase the market value of shares
- d) To discourage existing shareholders from buying the reissued shares

89. Which account is debited when reissued shares are sold at a discount?

- a) Share Capital Account
- b) Discount on Reissued Shares Account
- c) Forfeited Shares Account
- d) Cash Account**

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90. What happens to the amount received in excess of the forfeited value when reissued shares are sold at a premium?

a) It is refunded to the original shareholder

b) It is credited to the Premium on Reissued Shares

Account

c) It is treated as an expense

d) It is distributed as dividends

91. The process of reissuing forfeited shares helps in _____

a) Increasing the number of outstanding shares

b) Reducing the capital base of the company

c) Raising additional capital

d) Distributing dividends to shareholders

92. Which financial statement reflects the reissued shares on the company's books?

a) Balance sheet

b) Income statement

c) Cash flow statement

d) Statement of changes in equity

93. What is the term for the shares that are offered to existing shareholders before being sold to the public during a reissue?

a) Initial Public Offering (IPO)

b) Rights Issue

c) Private Placement

d) Bonus Issue

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94. Reissued shares are recorded on the balance sheet under which category?

- a) Liabilities b) Assets
- c) Equity** d) Expenses

95. What is the primary advantage of reissuing forfeited shares at a discount for the company?

- a) It attracts new investors
- b) It helps in raising additional capital**
- c) It increases the market value of shares
- d) It reduces the number of outstanding shares.

ANSWERS:

1.c, 2.b, 3.c, 4.b, 5.c, 6.b, 7.c, 8.a, 9.a, 10.a, 11.c, 12.d, 13.a, 14.b, 15.c, 16.d, 17.a, 18.c, 19.b, 20.a, 21.c, 22.a, 23.b, 24.b, 25.a, 26.b, 27.c, 28.c, 29.b, 30.b, 31.b, 32.b, 33.c, 34.c, 35.c, 36.a, 37.a, 38.c, 39.b, 40.b, 41.c, 42.b, 43.b, 44.a, 45.a, 46.d, 47.a, 48.a, 49.a, 50.c, 51.a, 52.b, 53.c, 54.a, 55.c, 56.b, 57.b, 58.b, 59.d, 60.a, 61.c, 62.c, 63.a, 64.d, 65.d, 66.c, 67.c, 68.c, 69.d, 70.a, 71.c, 72.c, 73.b, 74.db, 75.a, 76.c, 77.b, 78.a, 79.a, 80.a, 81.c, 82.b, 83.a, 84.d, 85.a, 86.c, 87.a, 88.a, 89.d, 90.b, 91.c, 92.a, 93.b, 94.c, 95.b

UNIT-II

1. What is the primary characteristic of preference shares?

- a. Voting rights
- b. **Fixed dividend**
- c. Convertibility
- d. Callable feature

2. Which of the following statements about preference shares is true?

- a. Holders have no claim on company assets.
- b. **Dividends are paid after common shareholders.**
- c. They always carry voting rights.
- d. They are always convertible into common shares.

3. What is the typical feature of cumulative preference shares?

- a. **Dividends accumulate if not paid.**
- b. No voting rights.
- c. Convertible into common shares.
- d. Fixed maturity date.

4. Which party has a higher claim on company assets in the event of liquidation?

- a. Common shareholders
- b. **Preference shareholders**
- c. Both have equal claims
- d. Creditors

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5. What is the advantage of participating preference shares?

- a. Higher dividend rates
- b. Voting rights

c. Share in additional profits after common shareholders are paid

- d. Convertibility feature

6. What is the meaning of a "redeemable" preference share?

- a. Shareholders can exchange them for common shares.

b. The company can buy them back at a predetermined price.

- c. They have no voting rights.
- d. Dividends are not paid on these shares.

7. Which type of preference shares can be converted into common shares at the option of the shareholder?

- a. Cumulative preference shares
- b. Participating preference shares
- c. Convertible preference shares**
- d. Non-cumulative preference shares

8. In the hierarchy of claims, where do preference shareholders stand in relation to common shareholders?

- a. Above**
- b. Below
- c. Equal to
- d. No fixed position

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9. What is the significance of the "par value" of preference shares?

- a. It determines the voting rights.
- b. It is the face value used for dividend calculations.**
- c. It indicates the conversion ratio.
- d. It represents the market value.

10. What is the purpose of a call provision in preference shares?

- a. Allows the shareholder to convert the shares into common stock.
- b. Permits the company to buy back the shares before maturity.**
- c. Provides additional voting rights.
- d. Fixes the dividend rate.

11. Which financial instrument is similar to preference shares but represents a debt obligation?

- a. Common stock
- b. Bonds**
- c. Convertible securities
- d. Warrants

12. What is the primary source of income for preference shareholders?

- a. Capital appreciation
- b. Dividends**
- c. Interest payments
- d. Stock options

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13. In the absence of a specified dividend rate, how are dividends typically paid on preference shares?
- a. Proportional to common stock dividends
 - b. Equal to common stock dividends
 - c. At the discretion of the board of directors**
 - d. Fixed percentage of the par value
14. Which type of preference shares allows the company to skip dividend payments without accumulating them for future payouts?
- a. Cumulative preference shares
 - b. Non-cumulative preference shares**
 - c. Participating preference shares
 - d. Redeemable preference shares
15. How do preference shares contribute to a company's capital structure?
- a. By providing voting rights to shareholders
 - b. By increasing debt obligations
 - c. By offering a fixed claim on earnings and assets**
 - d. By converting into common shares over time.
16. What is the primary characteristic of Cumulative Preference Shares?
- a) No voting rights
 - b) Dividends accumulate if not paid**
 - c) Convertible into equity shares

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d) No fixed dividend rate

17. Which type of preference shares allows the holder to participate in surplus profits after the specified dividend is paid to both equity and preference shareholders?

a) Non-Cumulative Preference Shares

b) Participating Preference Shares

c) Redeemable Preference Shares

d) Convertible Preference Shares

18. What feature distinguishes Convertible Preference Shares from other types?

a) No fixed dividend rate

b) Convertible into equity shares

c) Voting rights

d) No maturity date

19. Which type of preference shares can be converted into a fixed number of equity shares after a specified period?

a) Cumulative Preference Shares

b) Redeemable Preference Shares

c) Convertible Preference Shares

d) Non-Cumulative Preference Shares

20. What is the distinguishing feature of Redeemable Preference Shares?

a) No voting rights

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- b) Convertible into equity shares
- c) Can be redeemed after a specified period**
- d) Participating in surplus profits

21. Which type of preference shares does not have the right to accumulate unpaid dividends?

- a) Cumulative Preference Shares
- b) Non-Cumulative Preference Shares**
- c) Participating Preference Shares
- d) Redeemable Preference Shares

22. Preference shares that have a fixed dividend rate but can participate in surplus profits are called _____

- a) Cumulative Preference Shares
- b) Participating Preference Shares**
- c) Redeemable Preference Shares
- d) Non-Cumulative Preference Shares

23. Which type of preference shares can be exchanged for equity shares at the option of the shareholder?

- a) Cumulative Preference Shares
- b) Convertible Preference Shares**
- c) Redeemable Preference Shares
- d) Non-Cumulative Preference Shares

24. What is the key characteristic of Irredeemable Preference Shares?

- a) No voting rights

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- b) Cannot be converted into equity shares**
- c) Can be redeemed after a specified period
- d) Participating in surplus profits

25. Which type of preference shares is often issued with a maturity date?

- a) Cumulative Preference Shares
- b) Redeemable Preference Shares**
- c) Participating Preference Shares
- d) Non-Cumulative Preference Shares

26. Preference shares that do not carry voting rights are known as _____

- a) Cumulative Preference Shares
- b) Non-Voting Preference Shares
- c) Redeemable Preference Shares
- d) Non-Cumulative Preference Shares**

27. Which type of preference shares provides the right to participate in the surplus assets during liquidation?

- a) Cumulative Preference Shares
- b) Participating Preference Shares**
- c) Redeemable Preference Shares
- d) Non-Cumulative Preference Shares

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28. Preference shares that have a claim on both dividends and assets during liquidation are known as _____

- a) Cumulative Preference Shares
- b) Non-Cumulative Preference Shares
- c) Cumulative Participating Preference Shares**
- d) Redeemable Preference Shares

29. Which type of preference shares can be converted into a fixed number of equity shares at a predetermined ratio?

- a) Cumulative Preference Shares
- b) Convertible Preference Shares**
- c) Participating Preference Shares
- d) Non-Cumulative Preference Shares

30. The preference shares that are repayable at a fixed date or after a specified period are known as _____

- a) Cumulative Preference Shares
- b) Redeemable Preference Shares**
- c) Participating Preference Shares
- d) Non-Cumulative Preference Shares

31. What is the minimum period for which preference shares must be issued before they can be redeemed, according to the Companies Act?

- a. 1 year
- b. 2 years
- c. 3 years**
- d. 5 years

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32. What is the maximum premium that can be paid on redemption of preference shares, as per the Companies Act?

- a. 5% **b. 10%**
- c. 15% d. 20%

33. Which type of reserves can be used for the redemption of preference shares?

- a. Capital Reserve b. Revenue Reserve
- c. General Reserve **d. All of the above**

34. What is the maximum percentage of profits that can be used for the redemption of preference shares without the need for a court order?

- a. 10% b. 15%
- c. 20%** d. 25%

35. When can a company redeem preference shares at a premium without the need for a special resolution?

- a. Anytime
- b. Only during the first 5 years
- c. Only after 5 years**
- d. Only with the approval of the preference shareholders

36. What is the typical notice period that a company must give to redeem preference shares?

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- a. 7 days
- b. 15 days
- c. 30 days**
- d. 60 days

37. Which type of shares can be issued in lieu of the redemption of preference shares?

- a. Equity Shares
- b. Bonus Shares
- c. Debentures**
- d. Cumulative Preference Shares

38. What is the role of the company's articles of association in the redemption of preference shares?

- a. No role
- b. It governs the entire process**
- c. It is required for court approval
- d. It determines the premium amount

39. In case of insufficient profits, how can a company redeem preference shares?

- a. Use the capital reserve
- b. Use the securities premium account
- c. Seek court approval**
- d. Delay the redemption

40. What happens to the unredeemed preference shares after the specified time for redemption has passed?

- a. Automatically redeemed
- b. Converted into equity shares
- c. Subject to legal action**
- d. Cancelled

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41. Who approves the terms and conditions of preference share redemption?

- a. Board of Directors **b. Shareholders**
- c. Company Secretary d. Registrar of Companies

42. When can a company redeem preference shares at a discount without court approval?

- a. Never
- b. Only if permitted in the articles of association**
- c. Only with the approval of preference shareholders
- d. Only with the permission of the regulatory authority

43. What is the maximum limit for the buyback of preference shares in a financial year?

- a. 10% of the paid-up capital**
- b. 25% of the paid-up capital
- c. 50% of the paid-up capital
- d. 75% of the paid-up capital

44. Which financial statement must be checked to ensure that there are sufficient profits for the redemption of preference shares?

- a. Income Statement
- b. Balance Sheet**
- c. Cash Flow Statement
- d. Statement of Changes in Equity

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45. Who has the authority to determine the terms of redemption in the absence of provisions in the articles of association?

- a. **Board of Directors**
- b. Preference Shareholders
- c. Court
- d. Registrar of Companies

46. What is capital profit in the context of the redemption of preference shares?

- a. Profit generated from day-to-day operations
- b. **Profit derived from the sale of assets**
- c. Dividends earned by shareholders
- d. Interest earned on debentures

47. Which of the following is an example of capital profit in preference share redemption?

- a. Accumulated profits from regular business activities
- b. **Gain on the sale of an investment**
- c. Dividends received from subsidiary companies
- d. Interest income from loans to employees

48. In the redemption of preference shares, what type of profit is transferred to the Capital Redemption Reserve?

- a. Revenue profit
- b. **Capital profit**
- c. Both revenue and capital profit
- d. Neither revenue nor capital profit

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49. What is revenue profit in the context of preference share redemption?

- a. Profits generated from the sale of fixed assets
- b. Profits earned from regular business activities**
- c. Gains from the sale of subsidiaries
- d. Interest earned from investments

50. Which account is credited with revenue profit during the redemption of preference shares?

- a. Capital Redemption Reserve
- b. General Reserve
- c. Profit and Loss Account**
- d. Securities Premium Account

51. When is revenue profit utilized in the redemption of preference shares?

- a. Only if there is insufficient capital profit**
- b. Only if authorized by the shareholders
- c. Exclusively in the first five years of redemption
- d. Throughout the entire redemption process

52. What is the primary source of capital profit in the redemption of preference shares?

- a. Ordinary share capital
- b. Debentures
- c. Premium on issue of shares**
- d. Retained earnings

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53. Which financial document reflects the capital profit available for redemption?

- a. Balance Sheet**
- b. Income Statement
- c. Cash Flow Statement
- d. Statement of Changes in Equity

54. What is the treatment of capital profit in the Capital Redemption Reserve account after the redemption of preference shares?

- a. Transferred to Retained Earnings
- b. Distributed as dividends
- c. Remains in the Capital Redemption Reserve**
- d. Transferred to the General Reserve

55. What happens to the revenue profit after the redemption of preference shares?

- a. Transferred to Capital Redemption Reserve
- b. Distributed as dividends**
- c. Retained for future redemptions
- d. Transferred to the General Reserve

56. In the absence of a Capital Redemption Reserve, where is the capital profit accounted for?

- a. Profit and Loss Account
- b. General Reserve
- c. Securities Premium Account**
- d. Ordinary Share Capital

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57. Which profit is essential for the redemption of preference shares according to legal requirements?

- a. Revenue profit
- b. Capital profit**
- c. Both revenue and capital profit
- d. Neither revenue nor capital profit

58. Which account reflects the appropriation of revenue profit for redemption purposes?

- a. Securities Premium Account
- b. Profit and Loss Account
- c. Capital Redemption Reserve**
- d. General Reserve

59. When can a company use revenue profit for the redemption of preference shares without a court order?

- a. Only if authorized by the shareholders**
- b. Only during the first 5 years of redemption
- c. At any time
- d. Only if the preference shareholders consent

60. What is the primary objective of maintaining a Capital Redemption Reserve?

- a. To distribute profits as dividends
- b. To protect the capital of the company**
- c. To fund regular business activities
- d. To facilitate the buyback of shares

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61. What is the primary purpose of redeeming preference shares?

- a. Capital appreciation
- b. Debt reduction
- c. Return of capital to shareholders**
- d. Dividend distribution

62. When can a company redeem preference shares?

- a. Anytime at the discretion of the board**
- b. Only with shareholder approval
- c. Only when the company is profitable
- d. Never, preference shares are perpetual

63. What is the redemption premium?

- a. Additional dividend paid to preference shareholders
- b. Extra amount paid on redemption**
- c. Face value of preference shares
- d. Discount on redemption

64. How is the redemption premium typically calculated?

- a. Percentage of face value
- b. Fixed amount per share
- c. Market value at redemption
- d. All of the above**

65. Which type of reserve is commonly used for funding the redemption of preference shares?

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- | | |
|--------------------|---------------------------|
| a. General reserve | b. Capital reserve |
| c. Revenue reserve | d. Statutory reserve |

66. What is the maximum time limit for the redemption of preference shares according to company law?

- | | |
|--------------------|---------------------|
| a. 10 years | b. 15 years |
| c. 20 years | d. No maximum limit |

67. Who has the authority to decide the terms of redemption?

- | | |
|-----------------|------------------------------|
| a. Shareholders | b. Board of directors |
| c. Auditors | d. Government regulators |

68. What happens if a company fails to redeem preference shares on the due date?

- | |
|---|
| a. Automatic extension of redemption period |
| b. Conversion into equity shares |
| c. Legal action by shareholders |
| d. Cancellation of preference shares |

69. Which financial statement reflects the redemption of preference shares?

- | |
|-----------------------------------|
| a. Income statement |
| b. Balance sheet |
| c. Cash flow statement |
| d. Statement of changes in equity |

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70. What is the accounting treatment for the redemption premium?

- a. Debited to Retained Earnings
- b. Credited to Retained Earnings
- c. Treated as an expense
- d. Credited to Securities Premium Account**

71. Which type of preference shares can be redeemed at the company's option?

- a. Cumulative preference shares
- b. Non-cumulative preference shares
- c. Participating preference shares
- d. Redeemable preference shares**

72. What is the primary advantage of redeeming preference shares for a company?

- a. Increased control for existing shareholders
- b. Tax advantages
- c. Reduction of financial leverage**
- d. Higher dividend payouts

73. How is the redemption price of preference shares determined?

- a. Market value at the time of redemption
- b. Face value plus premium**
- c. Book value at the time of redemption
- d. Average market price over the redemption period

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74. Which of the following is not a method of financing the redemption of preference shares?

- a. Internal accruals
- b. Bank loans
- c. Issuing new equity shares**
- d. Liquidating fixed assets

75. What is the purpose of creating a sinking fund for the redemption of preference shares?

- a. To invest in speculative ventures
- b. To accumulate funds over time for redemption**
- c. To pay dividends to shareholders
- d. To cover operating expenses

76. What is a call option in the context of redeemable preference shares?

- a. The right of shareholders to demand redemption
- b. The right of the company to call for early redemption**
- c. The option for shareholders to convert to equity shares
- d. The option for the company to convert to debt

77. When is the premium on redemption treated as a capital loss for tax purposes?

- a. Immediately upon redemption**
- b. Over the redemption period
- c. At the time of issuance

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d. It is never treated as a capital loss

78. What is the primary risk associated with the redemption of preference shares?

- a. Market risk b. Credit risk
- c. Liquidity risk** d. Interest rate risk

79. Which regulatory body oversees the redemption of preference shares in most countries?

- a. Securities and Exchange Commission (SEC)**
- b. Reserve Bank of India (RBI)
- c. Financial Conduct Authority (FCA)
- d. Securities and Exchange Board of India (SEBI)

80. What is the usual method of communication to shareholders about the impending redemption of preference shares?

- a. Press release b. Annual report
- c. Notice to shareholders** d. All of the above

81. When a company redeems its preference shares out of revenue reserve, which financial statement is affected?

- a) Income Statement
- b) Balance Sheet**
- c) Cash Flow Statement
- d) Statement of Changes in Equity

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82. What is the primary purpose of using revenue reserves for the redemption of preference shares?

- a) To increase shareholder dividends
- b) To decrease the company's debt
- c) To enhance liquidity**
- d) To comply with regulatory requirements

83. Which type of reserves is commonly utilized for the redemption of preference shares?

- a) Capital Reserves
- b) General Reserves
- c) Statutory Reserves
- d) Revenue Reserves**

84. What is the impact of redeeming preference shares on the company's equity?

- a) Decreases equity
- b) Increases equity
- c) No impact on equity**
- d) Reduces the company's assets

85. Which financial principle supports the use of revenue reserves for preference share redemption?

- a) Prudence**
- b) Going Concern
- c) Consistency
- d) Materiality

86. How does the redemption of preference shares from revenue reserves affect the retained earnings?

- a) Increases retained earnings
- b) Decreases retained earnings
- c) No impact on retained earnings**

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d) Shifts retained earnings to capital reserves

87. What is the potential risk associated with using revenue reserves for preference share redemption?

- a) **Loss of solvency**
- b) Increased taxation
- c) Decline in share prices
- d) Negative impact on credit rating

88. Which regulatory body oversees the process of preference share redemption from revenue reserves?

- a) Securities and Exchange Board of India (SEBI)
- b) Financial Conduct Authority (FCA)
- c) **Securities and Exchange Commission (SEC)**
- d) European Securities and Markets Authority (ESMA)

89. What accounting entry is made when redeeming preference shares from revenue reserves?

- a) **Debit Preference Share Capital, Credit Revenue Reserve**
- b) Debit Revenue Reserve, Credit Preference Share Capital
- c) Debit Cash, Credit Preference Share Capital
- d) Debit Retained Earnings, Credit Common Stock

90. What is a common requirement for a company to redeem preference shares out of revenue reserves?

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a) Unanimous shareholder approval

- b) Approval from the board of directors only
- c) Approval from the bondholders
- d) Consent from the auditors

91. When a company makes a fresh issue of equity shares, it is primarily done to _____

- a) Reward existing shareholders

b) Raise additional capital

- c) Increase dividend payouts
- d) Reduce outstanding debt

92. The pricing of fresh issue shares is typically determined by _____

- a) **Market demand**
- b) Face value
- c) Historical stock prices
- d) Government regulations

93. Which financial statement is directly impacted by a fresh issue of equity shares?

- a) Income Statement
- b) Cash Flow Statement
- c) **Balance Sheet**
- d) Statement of Changes in Equity

94. What is the key advantage of a fresh issue for a company?

- a) Reducing outstanding liabilities
- b) **Increasing market capitalization**
- c) Lowering dividend payments
- d) Attracting more bondholders

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95. The funds raised through a fresh issue are typically used for _____

- a) Paying off existing debts
- b) Expanding business operations**
- c) Repurchasing shares
- d) Distributing as dividends

96. A bonus issue is also known as _____

- a) Rights issue
- b) Stock split**
- c) IPO
- d) Private placement

97. In a bonus issue, additional shares are distributed to existing shareholders based on:

- a) Market demand
- b) Proportion of existing holdings**
- c) Board of directors' decision
- d) Shareholder voting

98. What is the impact of a bonus issue on a company's retained earnings?

- a) Increases retained earnings
- b) Decreases retained earnings
- c) No impact on retained earnings**
- d) Shifts retained earnings to common stock

99. The primary purpose of a bonus issue is to:

- a) Raise additional capital
- b) Reward existing shareholders**

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- c) Lower the stock price
- d) Attract new investors

100. Which regulatory body oversees the process of a bonus issue?

- a) Securities and Exchange Board of India (SEBI)**
- b) Financial Conduct Authority (FCA)
- c) Securities and Exchange Commission (SEC)
- d) European Securities and Markets Authority (ESMA)

101. The face value of shares remains the same after a bonus issue, but _____

- a) Market value increases**
- b) Market value decreases
- c) Face value increases
- d) Both face value and market value decrease

102. Bonus shares are issued out of _____

- a) Revenue reserves
- b) Capital reserves
- c) General reserves
- d) All of the above**

103. Which of the following statements is true regarding bonus shares?

- a) They dilute the ownership of existing shareholders
- b) They do not affect the ownership structure**
- c) They consolidate ownership among existing shareholders

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d) They lead to a decrease in the number of outstanding shares

104. The process of a bonus issue involves a transfer from _____

a) Retained earnings to share capital

b) Share capital to retained earnings

c) General reserves to share capital

d) Share premium to retained earnings

105. Bonus issues are often seen as a signal of _____

a) Financial distress

b) Strong financial performance

c) Management incompetence

d) Dividend suspension

106. Which financial statement is not directly impacted by a bonus issue?

a) Income Statement

b) Cash Flow Statement

c) Balance Sheet

d) Statement of Changes in Equity

107. The market price per share is expected to decrease after a bonus issue due to _____

a) Increased demand for shares

b) Lower earnings per share

c) Higher dividend payouts

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d) Improved financial ratios

108. Bonus issues are often accompanied by an increase in _____

- a) **Dividend yield**
- b) Price-to-earnings ratio
- c) Debt-to-equity ratio
- d) Working capital

109. What is the impact of a bonus issue on the liquidity of a company's shares?

- a) **Increased liquidity**
- b) Decreased liquidity
- c) No impact on liquidity
- d) It depends on market conditions

110. Bonus issues are more common when a company _____

- a) Faces financial difficulties
- b) Has high earnings retention
- c) Plans to go public
- d) **Is in the growth phase**

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ANSWERS:

1.b, 2.b, 3.a, 4.b, 5.c, 6.b, 7.c, 8.a, 9.b, 10.b, 11.b, 12.b,
13.c, 14.b, 15.b, 16.b, 17.b, 18.b, 19.c, 20.c, 21.b, 22.b,
23.b, 24.b, 25.b, 26.d, 27.b, 28.c, 29.b, 30.b, 31.c, 32.b,
33.d, 35.c, 36.c, 37.c, 38.b, 39.c, 40.c, 41.b, 42.b, 43.a,
44.b, 45.a, 46.b, 47.b, 48.b, 49.b, 50.c, 51.a, 52.c, 53.a,
54.c, 55.b, 56.c, 57.b, 58.c, 59.a, 60.b, 61.c, 62.a, 63.b,
64.d, 65.b, 66.c, 67.b, 68.b, 69.b, 70.d, 71.d, 72.c, 73.b,
74.c, 75.b, 76.b, 77.a, 78.c, 79.a, 80.c, 81.b, 82.c, 83.d,
84.c, 85.a, 86.c, 87.a, 88.c, 89.a, 90.a, 91.b, 92.a, 93.c,
94.b, 95.b, 96.b, 97.b, 98.c, 99.b, 100.a, 101.a, 102.d,
103.b, 104.a, 105.b, 106.a, 107.b, 108.a, 109.a, 110.d



UNIT III

1. What is a debenture?
a) Equity security **b) Debt security**
c) Hybrid security d) Preference security
2. Debentures are typically issued by_____
a) Governments **b) Corporations**
c) Individuals d) D Banks
3. Which of the following is a long-term debenture?
a) Convertible debenture b) Callable debenture
c) Perpetual debenture d) Secured debenture
4. Debentures that can be exchanged for equity shares are known as_____
a) Convertible debentures
b) Perpetual debentures
c) Secured debentures
d) Redeemable debentures
5. Secured debentures are backed by_____
a) Company assets b) Shareholders' equity
c) Government guarantee d) Future profits
6. What is the meaning of the term "redeemable" in redeemable debentures?
a) Exchanging for equity shares

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- b) Repaying the principal amount**
c) Never maturing
d) Converting into cash
7. Debentures that can be called back by the issuer before maturity are called _____
a) Convertible debentures **b) Callable debentures**
c) Perpetual debentures d) Secured debentures
8. Which debenture provides no fixed maturity date?
a) Convertible debenture b) Callable debenture
c) Perpetual debenture d) Secured debenture
9. Subordinated debentures are _____
a) Higher in priority for repayment
b) Lower in priority for repayment
c) Convertible into equity
d) Callable before maturity
10. Zero-coupon debentures _____
a) Pay interest periodically
b) Have a fixed maturity date
c) Are issued at a discount
d) Are not tradable
11. Which debenture carries a lower interest rate but can be converted into equity?
a) Convertible debenture b) Callable debenture
c) Perpetual debenture d) Secured debenture

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12. A company issuing debentures to the public must obtain approval from _____

- a) Shareholders
- b) Creditors
- c) Regulators**
- d) Employees

13. What is the purpose of a debenture trust deed?

- a) To issue more debentures
- b) To protect debenture holders' interests**
- c) To increase the company's equity
- d) To convert debentures into equity

14. Which type of debenture gives the holder a share in the company's profits?

- a) Secured debenture
- b) Perpetual debenture**
- c) Convertible debenture
- d) Callable debenture

15. The rate of interest on debentures is known as _____

- a) Dividend
- b) Premium
- c) Coupon rate**
- d) Yield

16. What is the primary source of repayment for debenture holders?

- a) Dividends
- b) Capital gains
- c) Interest payments**
- d) Share buybacks

17. Debentures are classified as a form of _____

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- a) Short-term financing b) Medium-term financing
c) Long-term financing d) Working capital

18. Which debenture is backed by specific assets of the company?

- a) Convertible debenture b) Callable debenture
c) Perpetual debenture **d) Secured debenture**

19. The process of repurchasing debentures before their maturity is known as _____

- a) Redemption b) Conversion
c) Buyback d) Call back

20. In the event of liquidation, debenture holders have a claim _____

- a) After shareholders
b) Before shareholders
c) Simultaneously with shareholders
d) Only if the company is profitable

21. What is a debenture?

- a) Ownership in a company
b) Debt instrument of a company
c) Hybrid instrument
d) Government security

22. Shares represent _____

- a) Ownership in a company**

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- b) Debt obligation of a company
 - c) Fixed interest payment
 - d) Government guarantee
23. The return on shares is in the form of _____
- a) Interest
 - b) Dividends**
 - c) Principal repayment
 - d) Capital gains
24. The return on debentures is in the form of _____
- a) Interest**
 - b) Dividends
 - c) Capital gains
 - d) Voting rights
25. Debenture holders are considered _____
- a) Owners of the company
 - b) Creditors of the company**
 - c) Shareholders of the company
 - d) Government representatives
26. Shareholders have the right to _____
- a) Vote in company decisions**
 - b) Receive fixed interest payments
 - c) Convert their securities into debt
 - d) Call back their securities
27. Debentures have a fixed _____
- a) Maturity date**
 - b) Dividend rate
 - c) Voting power
 - d) Ownership percentage

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28. Shares have the potential for _____
a) **Capital losses** b) Fixed interest payments
c) Maturity d) Fixed redemption value
29. The ownership of shares can be transferred _____
a) Only with the company's permission
b) **Freely in the stock market**
c) Only to family members
d) Only after maturity
30. Debentures are classified as _____
a) Equity instruments b) Hybrid instruments
c) **Debt instruments** d) Government securities
31. Shares are part of a company's _____
a) Liabilities b) Assets
c) **Equity** d) Expenses
32. In the event of liquidation, debenture holders are paid _____
a) **Before shareholders**
b) After shareholders
c) Simultaneously with shareholders
d) Only if the company is profitable
33. The value of shares is influenced by _____
a) Interest rates b) **Company profits**

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- c) Maturity date d) Government policies

34. The value of debentures is primarily influenced by _____

- a) Stock market conditions **b) Interest rates**
c) Dividend payments d) Voting power

35. Convertible debentures allow conversion into _____

- a) Fixed interest payments
b) Government securities
c) Equity shares
d) Preferred shares

36. The main purpose of issuing shares is to _____

- a) Raise debt capital
b) Share ownership and control
c) Provide fixed interest income
d) Guarantee principal repayment

37. The main purpose of issuing debentures is to _____

- a) Raise equity capital
b) Share ownership and control
c) Provide fixed interest income
d) Guarantee principal repayment

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38. Shareholders have the right to attend and vote at _____

- a) **Annual General Meetings (AGMs)**
- b) Board meetings
- c) Bondholder meetings
- d) Creditors' meetings

39. The risk associated with shares is primarily _____

- a) Credit risk
- b) Market risk**
- c) Interest rate risk
- d) Liquidity risk

40. The risk associated with debentures is primarily _____

- a) Market risk
- b) Credit risk
- c) Interest rate risk**
- d) Operational risk

41. What is the primary reason for a company to redeem debentures?

- a) To issue new shares
- b) To reduce debt**
- c) To increase interest payments
- d) To declare dividends

42. Which term refers to the date on which debentures will be redeemed by the company?

- a) Maturity date**
- b) Issuance date
- c) Allotment date
- d) Record date

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43. What is the typical source of funds for the redemption of debentures?

- a) Share capital
- b) Retained earnings
- c) Debenture redemption reserve**
- d) Trade payables

44. What is the purpose of creating a Debenture Redemption Reserve (DRR)

- a) To pay dividends
- b) To fund working capital
- c) To ensure funds for debenture redemption**
- d) To repurchase shares

45. How can a company finance debenture redemption if it doesn't have sufficient profits or a Debenture Redemption Reserve?

- a) Borrowing from banks
- b) Issuing more debentures
- c) Selling assets
- d) All of the above**

46. When can a company redeem debentures before the maturity date?

- a) Only with shareholder approval**
- b) Only with debenture holder approval
- c) At any time without approval
- d) Only with regulatory approval

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47. What is the typical method of debenture redemption?
a) Open market purchases b) Conversion to equity
c) Payment in cash d) Debt-for-equity swap
48. Which financial statement reflects the redemption of debentures?
a) Balance Sheet
b) Income Statement
c) Cash Flow Statement
d) Statement of Changes in Equity
49. What is the role of a Debenture Trustee in the redemption process?
a) Representing debenture holders
b) Issuing debentures
c) Redeeming debentures
d) Auditing financial statements
50. What happens to the interest on debentures during the redemption process?
a) Increases b) Decreases
c) Stays the same c) Converted to equity
51. Which regulatory body governs the redemption of debentures in many countries?
a) SEC (Securities and Exchange Commission)
b) RBI (Reserve Bank of India)
c) FCA (Financial Conduct Authority)

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- d) ASIC (Australian Securities and Investments Commission)

52. What is the impact of debenture redemption on the debt-equity ratio?

- a) Increases **b) Decreases**
c) No impact d) Depends on interest rates

53. In the context of debenture redemption, what is a sinking fund?

- a) A fund to cover losses
b) A fund to buy back debentures
c) A fund for dividend payments
d) A fund for share buybacks

54. What is the significance of the "Call Option" in debenture redemption?

- a) It allows debenture holders to demand redemption
b) It allows the company to redeem debentures before maturity
c) It is a regulatory requirement
d) It determines the interest rate on debentures

55. How does the debenture redemption impact the earnings per share (EPS) of a company?

- a) Increases
b) Decreases
c) No impact

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d) Depends on the market conditions

56. What is the role of a resolution in the context of debenture redemption?

- a) Documenting the terms of debenture issuance
- b) Authorizing the redemption of debentures**
- c) Determining the interest rate on debentures
- d) Auditing financial statements

57. How does the market value of debentures change during the redemption process?

- a) Increases
- b) Decreases
- c) Stays the same**
- d) Depends on interest rates

58. What is the role of the company's board of directors in the debenture redemption process?

- a) Setting interest rates
- b) Approving the redemption plan**
- c) Selling debentures
- d) Auditing financial statements

59. In which scenario is a debenture redemption reserve not required?

- a) Redeeming debentures at a premium**
- b) Redeeming debentures at par
- c) Redeeming debentures at a discount
- d) Redeeming convertible debentures

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60. What is the consequence of not adhering to debenture redemption obligations?

- a) **Fines and penalties** b) Increase in credit rating
- c) Higher stock prices d) Tax benefits

61. Which method involves repaying a portion of the debentures periodically over the debenture tenure?

- a) Call Option
- b) **Sinking Fund**
- c) Convertible Debentures
- d) Premium Redemption

62. What method allows the company to buy back debentures at a predetermined price before maturity?

- a) **Call Option**
- b) Convertible Debentures
- c) Debenture Redemption Reserve
- d) Discount Redemption

63. In which method are debentures converted into equity shares at a predetermined ratio?

- a) Sinking Fund
- b) Premium Redemption
- c) **Conversion**
- d) Debenture Redemption Reserve

64. Which method involves repurchasing debentures at a price higher than their face value?

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- a) Premium Redemption** b) Call Option
c) Sinking Fund d) Discount Redemption

65. What is the purpose of a Debenture Redemption Reserve (DRR) in the redemption process?

- a) To facilitate conversion
b) To create a sinking fund
c) To ensure funds for redemption
d) To pay interest

66. Which method involves repurchasing debentures at a price lower than their face value?

- a) Discount Redemption** b) Premium Redemption
c) Call Option d) Conversion

67. What is the primary advantage of the Sinking Fund method of debenture redemption?

- a) Flexibility in timing **b) Fixed redemption date**
c) Regular cash outflow d) Automatic conversion

68. In which method does the company set aside funds in a separate account to redeem debentures?

- a) Conversion **b) Sinking Fund**
c) Call Option d) Premium Redemption

69. Which method provides the company with the flexibility to choose when to redeem debentures?

- a) Sinking Fund **b) Call Option**

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- c) Conversion d) Discount Redemption

70. What is a common feature between Premium Redemption and Discount Redemption methods?

- a) Both involve conversion
- b) Both involve repurchasing at face value
- c) Both involve repurchasing at a price different from face value**
- d) Both are mandatory methods

71. which method does the company have the potential to reduce the overall interest cost?

- a) Conversion** b) Discount Redemption
- c) Premium Redemption d) Sinking Fund

72. Which method is most likely to lead to an increase in the company's equity base?

- a) Sinking Fund b) Premium Redemption
- c) Conversion** d) Call Option

73. What is the primary disadvantage of relying on the Call Option method for debenture redemption?

- a) High-interest costs
- b) Dependence on market conditions
- c) Lack of flexibility**
- d) Complexity in accounting

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74. Which method is suitable for companies expecting a significant increase in future profits?

- a) Sinking Fund b) Premium Redemption
- c) Discount Redemption **d) Conversion**

75. What is the role of a trustee in the context of the Sinking Fund method?

- a) Approving the redemption plan
- b) Representing debenture holders
- c) Managing the sinking fund account**
- d) Setting interest rates

76. In which method does the company have the potential to repurchase debentures at a discount?

- a) Premium Redemption b) Conversion
- c) Discount Redemption** d) Call Option

77. What is the primary risk associated with the Conversion method?

- a) Market conditions** b) Lack of flexibility
- c) Interest rate fluctuations d) Regulatory approval

78. Which method may involve additional costs associated with setting up and managing a separate fund?

- a) Call Option b) Premium Redemption
- c) Sinking Fund** d) Discount Redemption

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79. In which method does the company have the potential to repurchase debentures at a premium?

- a) Discount Redemption **b) Premium Redemption**
- c) Call Option d) Sinking Fund

80. What is the primary purpose of the Debenture Redemption Reserve (DRR) in the Premium Redemption method?

- a) To cover losses
- b) To ensure funds for premium redemption**
- c) To pay dividends
- d) To fund working capital

81. What is the purpose of writing off discount on the redemption of debentures?

- a) To increase profits
- b) To decrease profits**
- c) To comply with regulations
- d) To avoid debenture conversion

82. When is the discount on the redemption of debentures typically written off?

- a) At the time of issuance
- b) At the time of redemption**
- c) At the time of conversion
- d) At the end of the financial year

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83. How does the write-off of discount affect the company's financial statements?

- a) Increases assets b) Decreases liabilities
- c) Decreases equity** d) Increases expenses

84. What accounting entry is made when discount on debentures is written off?

- a) Debit Discount on Debentures, Credit Retained Earnings
- b) Debit Discount on Debentures, Credit Debenture Redemption Reserve
- c) Debit Profit and Loss Account, Credit Discount on Debentures**
- d) Debit Debenture Redemption Reserve, Credit Discount on Debentures

85. Why is the write-off of discount necessary in the context of debenture redemption?

- a) To reduce interest payments
- b) To reflect the true cost of debt**
- c) To increase tax benefits
- d) To boost shareholder returns

86. What is the impact of writing off discount on the company's tax liability?

- a) Increases tax liability**
- b) Decreases tax liability
- c) No impact on tax liability

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d) Converts tax liability to equity

87. How does the write-off of discount affect the carrying amount of debentures on the balance sheet?

- a) Increases b) Decreases
- c) Stays the same** d) Depends on market conditions

88. What is the primary reason for a company to issue debentures at a discount?

- a) To attract more investors
- b) To reduce interest costs**
- c) To comply with regulations
- d) To increase shareholder wealth

89. In which situation would a company be more likely to issue debentures at a discount?

- a) High-interest rates
- b) Low market demand**
- c) Strong financial performance
- d) Stable economic conditions

90. What is the treatment of discount on debentures in the year of issuance before redemption?

- a) Expensed immediately
- b) Amortized over the debenture tenure
- c) Ignored until redemption**
- d) Written off at the end of the financial year

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91. How does the write-off of discount impact the interest expense on debentures?

- a) Increases interest expense
- b) Decreases interest expense
- c) No impact on interest expense**
- d) Converts interest expense to dividends

92. What is the term for the process of allocating the discount on debentures over their tenure?

- a) Amortization**
- b) Depreciation
- c) Accrual
- d) Impairment

93. How does the write-off of discount impact the company's earnings per share (EPS)?

- a) Increases EP**
- b) Decreases EPS
- c) No impact on EPS
- d) Converts EPS to dividends

94. What is the primary disadvantage of issuing debentures at a discount for the company?

- a) Increased interest costs
- b) Decreased tax liability
- c) Dilution of ownership**
- d) Higher credit rating

95. What is the term for the difference between the face value and the issue price of debentures?

- a) Premium
- b) Amortization
- c) Discount**
- d) Coupon

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ANSWERS:

1.b, 2.b, 3.c, 4.a, 5.a, 6.b, 7.b, 8.c, 9.b, 10.c, 11.c, 12.c,
13.b, 14.b, 15.c, 16.c, 17.c, 18.d, 19.c, 20.b, 21.b, 22.a,
23.b, 24.a, 25.b, 26.a, 27.a, 28.a, 29.b, 30.c, 31.c, 32.a,
33.b, 34.b, 35.c, 36.b, 37.c, 38.a, 39.b, 40.c, 41.b, 42.a,
43.c, 44.c, 45.d, 46.a, 47.c, 48.a, 49.a, 50.c, 51.a, 52.b,
53.b, 54.b, 55.c, 56.b, 57.c, 58.b, 59.a, 60.a, 61.b, 62.a,
63.c, 64.a, 65.c, 66.a, 67.b, 68.b, 69.b, 70.c, 71.a, 72.c,
73.c, 74.d, 75.c, 76.c, 77.c, 78.c, 79.b, 80.b, 81.b, 82.b,
83.c, 84.c, 85.b, 86.a, 87.c, 88.b, 89.b, 90.c, 91.c, 92.a,
93.a, 94.c, 95.c.



UNIT IV

1. What is the term for a situation where the underwriter agrees to sell as many shares as possible but is not committed to selling the entire issue?

- a) Marked underwriting
- b) Unmarked underwriting
- c) Firm underwriting
- d) Best efforts underwriting**

2. In marked underwriting, what does the underwriter commit to doing?

- a) Buying any unsold shares
- b) Selling a fixed percentage of shares**
- c) Selling the entire issue
- d) Only selling shares to institutional investors

3. What is firm underwriting?

- a) The underwriter guarantees to sell the entire issue**
- b) The underwriter takes no responsibility for the sale of shares
- c) The underwriter guarantees to buy any unsold shares
- d) The underwriter sells shares without any commitment

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4. What is a benefit of marked underwriting for the issuing company?

- a) **Reduced financial risk**
- b) Guaranteed sale of all shares
- c) Lower underwriting commission
- d) Higher stock price

5. In unmarked underwriting, what is the underwriter's commitment?

- a) To sell the entire issue
- b) To buy any unsold shares
- c) To sell a fixed percentage of shares
- d) **To sell as many shares as possible**

6. Which underwriting method provides the greatest certainty to the issuing company?

- a) Unmarked underwriting
- b) **Firm underwriting**
- c) Marked underwriting
- d) Best efforts underwriting

7. In marked underwriting, who bears the risk of undersubscription?

- a) Underwriter
- b) Shareholders
- c) **Issuing company**
- d) Regulatory authorities

8. What is the primary advantage of firm underwriting for the issuing company?

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- a) Reduced underwriting commission
 - b) Guaranteed sale of all shares**
 - c) Flexibility in selling shares
 - d) Higher stock price
9. What is the potential disadvantage of unmarked underwriting for the issuing company?
- a) Increased financial risk**
 - b) Higher underwriting commission
 - c) Lower stock price
 - d) Inflexibility in selling shares
10. Which underwriting method provides flexibility to the underwriter in selling shares?
- a) Marked underwriting
 - b) Unmarked underwriting**
 - c) Firm underwriting
 - d) Best efforts underwriting
11. What is the term for the process of setting aside a certain percentage of shares for specific investors in marked underwriting?
- a) Rationing
 - b) Refunding
 - c) Reserving**
 - d) Reducing
12. In firm underwriting, who assumes the risk of undersubscription?
- a) Issuing company
 - b) Underwriter**

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- c) Shareholders d) Regulatory authorities

13. What is the main advantage of marked underwriting for the underwriter?

- a) Reduced financial risk
b) Guaranteed underwriting commission
c) Flexibility in selling shares
d) Higher stock price

14. In unmarked underwriting, what happens if the shares are oversubscribed?

- a) Oversubscribed shares are refunded
b) Oversubscribed shares are rationed
c) Oversubscribed shares are reserved for institutional investors
d) Oversubscribed shares are automatically converted to firm underwriting

15. What is the primary risk for the underwriter in marked underwriting?

- a) Market risk b) Interest rate risk
c) Currency risk **d) Oversubscription risk**

16. In firm underwriting, how does the underwriter handle oversubscription?

- a) Oversubscribed shares are refunded**
b) Oversubscribed shares are rationed

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- c) Oversubscribed shares are automatically converted to unmarked underwriting
- d) Oversubscribed shares are automatically converted to marked underwriting

17. What is the term for the process of allocating shares to investors in an undersubscribed situation?

- a) **Rationing**
- b) Refunding
- c) Reducing
- d) Reserving

18. What is the primary advantage of unmarked underwriting for the underwriter?

- a) Guaranteed underwriting commission
- b) Reduced financial risk
- c) **Flexibility in selling shares**
- d) Higher stock price

19. In marked underwriting, what is the term for the process of reducing the number of shares offered to the public?

- a) Rationing
- b) Refunding
- c) **Reducing**
- d) Reserving

20. What is the primary advantage of marked underwriting for the issuing company?

- a) Guaranteed underwriting commission
- b) Reduced financial risk
- c) **Flexibility in selling shares**

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d) Higher stock price

21. What is the term for a situation where the underwriter agrees to sell as many shares as possible but is not committed to selling the entire issue?

- a) Marked underwriting
- b) Unmarked underwriting
- c) Firm underwriting
- d) **Best efforts underwriting**

22. In marked underwriting, what does the underwriter commit to doing?

- a) Buying any unsold shares
- b) **Selling a fixed percentage of shares**
- c) Selling the entire issue
- d) Only selling shares to institutional investors

23. What is firm underwriting?

- a) **The underwriter guarantees to sell the entire issue**
- b) The underwriter takes no responsibility for the sale of shares
- c) The underwriter guarantees to buy any unsold shares
- d) The underwriter sells shares without any commitment

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24. What is a benefit of marked underwriting for the issuing company?

- a) **Reduced financial risk**
- b) Guaranteed sale of all shares
- c) Lower underwriting commission
- d) Higher stock price

25. In unmarked underwriting, what is the underwriter's commitment?

- a) To sell the entire issue
- b) To buy any unsold shares
- c) To sell a fixed percentage of shares
- d) **To sell as many shares as possible**

26. Which underwriting method provides the greatest certainty to the issuing company?

- a) Unmarked underwriting
- b) **Firm underwriting**
- c) Marked underwriting
- d) Best efforts underwriting

27. In marked underwriting, who bears the risk of undersubscription?

- a) Underwriter
- b) Shareholders
- c) **Issuing company**
- d) Regulatory authorities

28. What is the primary advantage of firm underwriting for the issuing company?

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- a) Reduced underwriting commission
- b) Guaranteed sale of all shares**
- c) Flexibility in selling shares
- d) Higher stock price

29. What is the potential disadvantage of unmarked underwriting for the issuing company?

- a) Increased financial risk**
- b) Higher underwriting commission
- c) Lower stock price
- d) Inflexibility in selling shares

30. Which underwriting method provides flexibility to the underwriter in selling shares?

- a) Marked underwriting
- b) Unmarked underwriting**
- c) Firm underwriting
- d) Best efforts underwriting

31. What is the term for the process of setting aside a certain percentage of shares for specific investors in marked underwriting?

- a) Rationing
- b) Refunding
- c) Reserving**
- d) Reducing

32. In firm underwriting, who assumes the risk of undersubscription?

- a) Issuing company
- b) Underwriter**

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- c) Shareholders d) Regulatory authorities

33. What is the main advantage of marked underwriting for the underwriter?

- a) Reduced financial risk
b) Guaranteed underwriting commission
c) Flexibility in selling shares
d) Higher stock price

34. In unmarked underwriting, what happens if the shares are oversubscribed?

- a) Oversubscribed shares are refunded
b) Oversubscribed shares are rationed
c) Oversubscribed shares are reserved for institutional investors
d) Oversubscribed shares are automatically converted to firm underwriting

35. What is the primary risk for the underwriter in marked underwriting?

- a) Market risk b) Interest rate risk
c) Currency risk **d) Oversubscription risk**

36. In firm underwriting, how does the underwriter handle oversubscription?

- a) Oversubscribed shares are refunded**
b) Oversubscribed shares are rationed

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- c) Oversubscribed shares are automatically converted to unmarked underwriting
- d) Oversubscribed shares are automatically converted to marked underwriting

37. What is the term for the process of allocating shares to investors in an undersubscribed situation?

- a) **Rationing**
- b) Refunding
- c) Reducing
- d) Reserving

38. What is the primary advantage of unmarked underwriting for the underwriter?

- a) Guaranteed underwriting commission
- b) Reduced financial risk
- c) **Flexibility in selling shares**
- d) Higher stock price

39. In marked underwriting, what is the term for the process of reducing the number of shares offered to the public?

- a) Rationing
- b) Refunding
- c) **Reducing**
- d) Reserving

40. What is the primary advantage of marked underwriting for the issuing company?

- a) Guaranteed underwriting commission
- b) Reduced financial risk
- c) **Flexibility in selling shares**

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- d) Higher stock price
41. What is underwriting in insurance?
- a) Selling insurance policies
 - b) Assessing and assuming risk**
 - c) Marketing insurance products
 - d) Processing claims
42. What is the primary goal of underwriting?
- a) Maximizing profits
 - b) Minimizing policyholders
 - c) Assessing and managing risk**
 - d) Issuing policies quickly
43. What is a key factor considered in underwriting life insurance?
- a) Credit score
 - b) Driving history
 - c) Health and medical information**
 - d) Homeownership status
44. In property insurance, what does the term "risk selection" refer to?
- a) Choosing the riskiest policies
 - b) Assessing and selecting risks to insure**
 - c) Rejecting all insurance applications
 - d) Ignoring risk assessment altogether

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45. What is the purpose of a premium in insurance?
- a) Compensation for losses
 - b) Fee for policy issuance
 - c) Investment for the insurer
 - d) **All of the above**
46. Which type of insurance typically involves more detailed underwriting due to varying risks?
- a) Auto insurance
 - b) Home insurance
 - c) **Health insurance**
 - d) Travel insurance
47. What is reinsurance in the context of underwriting?
- a) Insurance for reins
 - b) **Insuring the insurer**
 - c) Rejecting insurance claims
 - d) A type of deductible
48. In underwriting, what does the term "subrogation" mean?
- a) Transferring risk to another insurer
 - b) **Pursuing third parties for recovery**
 - c) Canceling an insurance policy
 - d) Assessing policyholder behavior
49. How does underwriting contribute to the pricing of insurance policies?
- a) By setting government regulations
 - b) **By predicting future losses**

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- c) By offering discounts to policyholders
- d) By promoting insurance products

50. What is a common method used in underwriting to assess an individual's health in life insurance?

- a) Blood type analysis b) BMI calculation
- c) DNA testing **d) Medical examinations**

51. What is partial underwriting?

- a) Underwriting only a portion of the insurance policy**
- b) Underwriting based on partial information
- c) Underwriting for a specific demographic
- d) Underwriting without any restrictions

52. In partial underwriting, which part of the insurance policy is typically underwritten?

- a) Entire policy
- b) Premium amount only
- c) Specific coverage or risk**
- d) Policyholder's personal information

53. What is the primary advantage of partial underwriting for insurers?

- a) Lower administrative costs
- b) Reduced risk exposure**
- c) Faster policy issuance
- d) Increased customer satisfaction

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54. When might partial underwriting be preferred over full underwriting?

- a) For high-risk applicants
- b) For low-risk applicants
- c) For short-term insurance policies**
- d) For all insurance applications

55. Which factor is NOT considered in partial underwriting?

- a) Medical history
- b) Occupation
- c) Lifestyle choices
- d) Policy duration**

56. What is the potential drawback of partial underwriting for policyholders?

- a) Higher premiums
- b) Limited coverage**
- c) Longer processing time
- d) No drawbacks

57. In partial underwriting, what is the role of medical examinations?

- a) Always required
- b) Never required
- c) Required for certain policies**
- d) Required only for young applicants

58. How does partial underwriting impact the speed of policy issuance?

- a) Slows it down
- b) Speeds it up**

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- c) No impact on speed
- d) Depends on the insurer's policy

59. Which type of insurance is most commonly associated with partial underwriting?

- a) Health insurance
- b) Auto insurance
- c) Term life insurance**
- d) Travel insurance

60. What is the main goal of partial underwriting?

- a) Maximizing profits for insurers
- b) Providing comprehensive coverage
- c) Balancing risk and efficiency**
- d) Minimizing customer involvement

61. What is goodwill?

- a) Tangible assets
- b) Intangible assets**
- c) Current liabilities
- d) Long-term liabilities

62. Which method is commonly used for valuing goodwill?

- a) Cost method
- b) Market method
- c) Income method**
- d) All of the above

63. What is the formula for calculating goodwill under the income method?

- a) $\text{Goodwill} = \text{Assets} - \text{Liabilities}$
- b) $\text{Goodwill} = \text{Net assets} - \text{Capital}$
- c) $\text{Goodwill} = \text{Super profit} / \text{Capitalization rate}$**

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d) Goodwill = Market value - Book value

64. Which type of goodwill arises due to the reputation and customer loyalty of a business?

- a) **Personal goodwill** b) Locational goodwill
c) Institutional goodwill d) Market goodwill

65. Goodwill is classified into how many types?

- a. 2 **b. 3**
c. 4 d. 5

66. Which type of goodwill is associated with the favorable location of a business?

- a) Personal goodwill **b) Locational goodwill**
c) Institutional goodwill d) Market goodwill

67. What is the formula for calculating goodwill under the market method?

- a) Goodwill = Net tangible assets / Number of shares
b) Goodwill = Market value of business - Net tangible assets
c) Goodwill = Book value of business - Market value of assets
d) Goodwill = Earnings before interest and taxes (EBIT) / Capitalization rate

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68. Which method considers the excess earnings over the normal rate of return for valuing goodwill?

- a) Cost method b) Market method
- c) Income method** d) Capitalization method

69. Under the cost method, goodwill is calculated as _____

- a) Original cost of goodwill**
- b) Market value of goodwill
- c) Replacement cost of goodwill
- d) Accumulated amortization of goodwill

70. Which type of goodwill is associated with the overall industry and market conditions?

- a) Personal goodwill b) Locational goodwill
- c) Institutional goodwill d) **D Market goodwill**

71. Which method is based on the principle that the value of a business is the present value of its future earnings?

- a) Cost method b) Market method
- c) Income method** d) Net asset method

72. What is the main disadvantage of the cost method for valuing goodwill?

- a) Ignores market conditions**
- b) Ignores historical cost
- c) Ignores future earnings
- d) Ignores tangible assets

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73. What type of goodwill is difficult to quantify and transfer?

- a) **Personal goodwill**
- b) Locational goodwill
- c) Institutional goodwill
- d) Market goodwill

74. Which method is often used for valuing goodwill in the absence of reliable earnings data?

- a) Cost method
- b) Market method
- c) **Replacement cost method**
- d) Super profit method

75. Under the market method, goodwill is calculated based on _____

- a) Historical cost
- b) **Current market conditions**
- c) Accumulated depreciation
- d) Book value of asset

76. What is the key factor in determining the value of goodwill under the income method?

- a) Historical cost
- b) **Future earnings potential**
- c) Book value of assets
- d) Replacement cost

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77. Which type of goodwill is related to the favorable image associated with a business institution?

- a) Personal goodwill b) Locational goodwill
- c) Institutional goodwill** d) Market goodwill

78. Under the income method, the capitalization rate is calculated as _____

- a) Net profit / Total assets
- b) Net profit / Shareholders' equity
- c) Rate of return on investment**
- d) Super profit / Market value of assets

79. What does the replacement cost method consider for valuing goodwill?

- a) Historical cost
- b) Future earnings potential
- c) Current market conditions
- d) Accumulated depreciation**

80. Which type of goodwill is often associated with a favorable business location?

- a) Personal goodwill **b) Locational goodwill**
- c) Institutional goodwill d) Market goodwill

81. What is the primary objective of share valuation?

- a) Determine ownership percentage
- b) Assess market conditions
- c) Establish the company's net worth

d) Determine the fair value of shares

82. Which method involves determining the value of a share based on the company's net assets?

- a) Earnings Multiplier Method
- b) Dividend Discount Model (DDM)
- c) Net Asset Value (NAV) Method**
- d) Market Capitalization Method

83. In the Dividend Discount Model (DDM), the value of a share is calculated based on _____

- a) Historical dividend payments
- b) Future expected dividends**
- c) Current market conditions
- d) Earnings per share

84. Which method considers the company's earnings and future growth prospects for share valuation?

- a) Book Value Method
- b) Earnings Multiplier Method**
- c) Market Capitalization Method
- d) Liquidation Value Method

85. The Price/Earnings (P/E) ratio is commonly used in which share valuation method?

- a) Dividend Discount Model (DDM)
- b) Book Value Method
- c) Earnings Multiplier Method**

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d) Market Capitalization Method

86. What does the Book Value Method primarily focus on for share valuation?

- a) Future earnings potential
- b) Net assets and liabilities**
- c) Dividend history
- d) Market demand

87. Which method uses the company's current market price per share to determine its overall value?

- a) Net Asset Value (NAV) Method
- b) Dividend Discount Model (DDM)
- c) Market Capitalization Method**
- d) Liquidation Value Method

88. In the Earnings Multiplier Method, the multiplier is derived from the _____

- a) Dividend history
- b) Earnings per share (EPS)**
- c) Book value of assets
- d) Liquidation value

89. Which method is used when a company is facing financial distress and liquidation is imminent?

- a) Book Value Method
- b) Earnings Multiplier Method
- c) Liquidation Value Method**
- d) Dividend Discount Model (DDM)

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90. The Dividend Discount Model (DDM) is most appropriate for valuing shares of companies that _____

- a) Retain all earnings **b) Pay regular dividends**
- c) Have a high P/E ratio d) Focus on capital gains

91. What is the formula for calculating the Net Asset Value (NAV) per share?

- a) $(\text{Total Assets} - \text{Total Liabilities}) / \text{Number of Shares}$**
- b) $(\text{Total Assets} + \text{Total Liabilities}) / \text{Number of Shares}$
- c) $(\text{Total Assets} / \text{Number of Shares}) - (\text{Total Liabilities} / \text{Number of Shares})$
- d) $(\text{Total Liabilities} / \text{Number of Shares}) - (\text{Total Assets} / \text{Number of Shares})$

92. Which method considers the hypothetical scenario of selling all assets and paying off all liabilities?

- a) Net Asset Value (NAV) Method
- b) Dividend Discount Model (DDM)
- c) Earnings Multiplier Method
- d) Liquidation Value Method**

93. The Earnings Multiplier Method is also known as the _____

- a) Price/Earnings (P/E) Method**
- b) Market Capitalization Method

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- c) Dividend Yield Method
- d) Liquidation Value Method

94. Which factor is crucial in determining the value of shares under the Earnings Multiplier Method?

- a) Dividend history
- b) Earnings per share (EPS)**
- c) Book value of assets
- d) Liquidation value

95. In the context of share valuation, what does the term "intrinsic value" refer to?

- a) Current market price
- b) Fair value based on fundamentals**
- c) Liquidation value
- d) Book value per share

96. Which method assumes that the market price of a share reflects all available information?

- a) Dividend Discount Model (DDM)
- b) Efficient Market Hypothesis (EMH)**
- c) Liquidation Value Method
- d) D Market Capitalization Method

97. What is the main limitation of the Dividend Discount Model (DDM)?

- a) Ignores future dividends
- b) Assumes constant dividend growth**

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- c) Ignores market conditions
- d) Ignores earnings per share

98. The Market Capitalization Method is commonly used for the valuation of shares of _____

- a) Start-up companies
- b) Stable and mature companies**
- c) Companies in financial distress
- d) Non-profit organizations

99. Which method is most suitable for valuing shares of a company with irregular or unpredictable earnings?

- a) Earnings Multiplier Method
- b) Dividend Discount Model (DDM)
- c) Liquidation Value Method
- d) Net Asset Value (NAV) Method**

100. The liquidation value is often considered a floor value for shares because _____

- a) It reflects market conditions
- b) It considers future growth prospects
- c) It accounts for all assets and liabilities
- d) It represents the worst-case scenario**

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ANSWERS:

1. d, 2.b, 3.a, 4.a, 5.d, 6.b, 7.c, 8.b, 9.a, 10.b, 11.c, 12.b,
13.b, 14.b, 15.d, 16.a, 17.a, 18.c, 19.c, 20.c, 21.d, 22.b,
23.a, 24.a, 25.d, 26.b, 27.c, 28.b, 29.a, 30.b, 31.c, 32.b,
33.b, 34.b, 35.d, 36.a, 37.a, 38.c, 39.c, 40.c, 41.b, 42.c,
43.c, 44.b, 45.d, 46.c, 47.b, 48.b, 49.b, 50.b, 51.b, 52.c,
53.b, 54.c, 55.d, 56.b, 57.c, 58.b, 59.c, 60.c, 61.b, 62.c,
63.c, 64.a, 65.b, 66.b, 67.b, 68.c, 69.a, 70.d, 71.c, 72.a,
73.a, 74.c, 75.b, 76.b, 77.c, 78.c, 79.d, 80.b, 81.d, 82.c,
83.b, 84.b, 85.c, 86.b, 87.c, 88.b, 89.c, 90.b, 91.a, 92.d,
93.a, 94.b, 95.b, 96.b, 97.b, 98.b, 99.d, 100.d.



UNIT V

1. What is the primary purpose of calculating profit prior to incorporation?

- a) Tax assessment b) Dividend distribution
- c) Share valuation** d) Budgeting

2. Which financial statement reflects the profit prior to incorporation?

- a) Income statement**
- b) Balance sheet
- c) Cash flow statement
- d) Statement of retained earnings

3. Profit prior to incorporation is also known as _____

- a) Pre-incorporation profit** b) Initial profit
- c) Founders' profit d) Seed profit

4. What is the accounting treatment for profit prior to incorporation?

- a) Ignore it in financial statements
- b) Allocate it to shareholders**
- c) Retain it in the business
- d) Distribute it as dividends

5. When does profit prior to incorporation arise?

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- | | |
|------------------------|--------------------------------|
| a) After incorporation | b) Before incorporation |
| c) During liquidation | d) After the IPO |

6. Which accounting principle supports the allocation of profit prior to incorporation?

- a) Matching principle**
- b) Revenue recognition principle
- c) Materiality principle
- d) Going concern principle

7. The profit prior to incorporation is allocated based on:

- a) Equal distribution among shareholders
- b) Capital contribution
- c) Shareholders' agreement**
- d) Board of directors' decision

8. How is profit prior to incorporation disclosed in financial statements?

- a) As a separate line item**
- b) As an adjustment to retained earnings
- c) As part of operating income
- d) As an extraordinary item

9. What is the impact of profit prior to incorporation on the valuation of shares?

- a) Decreases share value
- b) No impact on share value
- c) Increases share value**

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d) Share value becomes irrelevant

10. Which term is used for the process of allocating profit prior to incorporation?

a) Pre-incorporation allocation

b) Founders' distribution

c) Dividend declaration

d) Capitalization of profit

11. Profit prior to incorporation is an indicator of the _____

a) Company's future profitability

b) Founders' personal income

c) Tax liabilities of the company

d) Company's historical performance

12. How does profit prior to incorporation affect the taxation of the company?

a) Reduces tax liability **b) Increases tax liability**

c) No impact on tax liability d) Defers tax payment

13. In the absence of a specific agreement, how is profit prior to incorporation usually allocated?

a) Equally among founders

b) Based on the number of shares held

c) Proportionate to capital contribution

d) According to seniority

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14. What is the role of profit prior to incorporation in the due diligence process?

- a) Demonstrates financial stability
- b) Raises concerns about financial management**
- c) Indicates potential for future losses
- d) Has no relevance in due diligence

15. Which financial metric is calculated using profit prior to incorporation?

- a) Return on investment (ROI)
- b) Earnings per share (EPS)
- c) Price-earnings ratio (P/E ratio)**
- d) Dividend yield

16. Profit prior to incorporation is considered a part of the:

- a) Ordinary course of business
- b) Extraordinary items
- c) Non-operating income
- d) Operating income**

17. The allocation of profit prior to incorporation is typically done during the:

- a) Initial public offering (IPO)
- b) Annual general meeting (AGM)**
- c) Pre-incorporation agreement
- d) Liquidation phase

18. How does profit prior to incorporation impact the financial position of the company?

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- a) Increases total assets
- b) Decreases total liabilities
- c) Increases shareholders' equity**
- d) Decreases cash reserves

19. What is the primary challenge in determining profit prior to incorporation?

- a) Lack of historical data
- b) Subjectivity in allocation**
- c) Complex tax regulations
- d) Inconsistencies in financial reporting

20. Which regulatory body may have guidelines on the treatment of profit prior to incorporation?

- a) Environmental Protection Agency (EPA)
- b) Securities and Exchange Commission (SEC)**
- c) Federal Reserve System (FRS)
- d) Internal Revenue Service (IRS)

21. Profit prior to incorporation is relevant for companies adopting which accounting framework?

- a) International Financial Reporting Standards (IFRS)**
- b) Generally Accepted Accounting Principles (GAAP)
- c) Cash basis accounting
- d) Modified accrual accounting

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22. The allocation of profit prior to incorporation may impact the calculation of:

- a) Return on assets (ROA)
- b) Net present value (NPV)
- c) Return on equity (ROE)**
- d) Operating margin

23. In the context of profit prior to incorporation, what is goodwill?

- a) Financial assets
- b) Intangible asset**
- c) Operating expense
- d) Deferred tax liability

24. Profit prior to incorporation is relevant in the valuation of:

- a) Fixed assets
- b) Current liabilities
- c) Convertible securities**
- d) Depreciation expense

25. How does profit prior to incorporation impact the balance between debt and equity?

- a) Increases debt, decreases equity
- b) Decreases debt, increases equity**
- c) Increases both debt and equity
- d) Decreases both debt and equity

26. Which of the following is a potential disadvantage of allocating profit prior to incorporation?

- a) Enhances shareholder value
- b) Creates tax advantages

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c) Raises concerns about transparency

d) Facilitates dividend distribution

27. In the context of profit prior to incorporation, what is meant by "capitalization"?

a) Converting profit into debt

b) Issuing additional shares

c) Allocating profit to shareholders

d) Investing in fixed assets

28. The allocation of profit prior to incorporation is essential for:

a) Non-profit organizations

b) Sole proprietorships

c) Partnerships

d) Corporations

29. How does profit prior to incorporation affect the calculation of dividends per share?

a) Increases dividends per share

b) Decreases dividends per share

c) No impact on dividends per share

d) Eliminates dividends per share

30. Which financial statement is affected by the allocation of profit prior to incorporation?

a) Statement of cash flows

b) Statement of changes in equity

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- c) Statement of comprehensive income
- d) Statement of financial position

31. Profit prior to incorporation is relevant in the context of:

- a) Business combinations**
- b) Cost of goods sold
- c) General and administrative expenses
- d) Research and development expenses

32. How is profit prior to incorporation treated in the calculation of the debt-to-equity ratio?

- a) Excluded from the calculation
- b) Included as part of equity**
- c) Included as part of debt
- d) Treated as a separate category

33. What is the significance of profit prior to incorporation in mergers and acquisitions?

- a) Enhances the market value of the target company
- b) Serves as a basis for negotiating share prices**
- c) Facilitates tax deductions
- d) Has no impact on the acquisition process

34. How does profit prior to incorporation affect the calculation of earnings before interest and taxes (EBIT)?

- a) Increases EBIT**
- b) Decreases EBIT
- c) No impact on EBIT
- d) Eliminates EBIT

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35. The allocation of profit prior to incorporation is relevant for companies pursuing:

- a) Stock buybacks
- b) Dividend reinvestment plans
- c) Initial public offerings**
- d) Corporate social responsibility initiatives

36. How can profit prior to incorporation be used in the calculation of return on investment (ROI)?

- a) Increase the numerator
- b) Decrease the denominator
- c) Increase both numerator and denominator**
- d) Decrease both numerator and denominator

37. In the context of profit prior to incorporation, what is "retained profit"?

- a) Profit allocated to shareholders
- b) Profit reinvested in the business**
- c) Profit distributed as dividends
- d) Profit held in a separate account

38. Which accounting principle justifies the allocation of profit prior to incorporation?

- a) Consistency principle
- b) Prudence principle
- c) Substance over form principle**
- d) Materiality principle

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39. Profit prior to incorporation is considered an item of:

- a) Non-operating income
- b) Extraordinary items
- c) Other comprehensive income
- d) Operating income**

40. How does profit prior to incorporation affect the calculation of the current ratio?

- a) Increases the current ratio
- b) Decreases the current ratio
- c) No impact on the current ratio**
- d) Changes the current ratio formula

41. In the absence of profit prior to incorporation, which financial metric may be used for share valuation?

- a) Book value per share**
- b) Dividend payout ratio
- c) Return on assets
- d) Earnings before interest and taxes (EBIT)

42. How does profit prior to incorporation impact the calculation of the debt service coverage ratio?

- a) Increases the ratio
- b) Decreases the ratio
- c) No impact on the ratio**
- d) Redefines the ratio formula

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43. Profit prior to incorporation is relevant in the context of determining:

- a) Capital gains tax**
- b) Depreciation expense
- c) Amortization of intangibles
- d) Residual value of assets

44. Which financial metric may be influenced by the allocation of profit prior to incorporation?

- a) Gross profit margin
- b) Inventory turnover ratio
- c) Return on investment (ROI)
- d) Price-earnings ratio (P/E ratio)**

45. How does profit prior to incorporation impact the calculation of the quick ratio?

- a) Increases the quick ratio
- b) Decreases the quick ratio
- c) No impact on the quick ratio**
- d) Changes the quick ratio formula

46. Profit prior to incorporation is relevant for companies involved in:

- a) Joint ventures**
- b) Capital leases
- c) Research and development
- d) Strategic alliances

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47. How does profit prior to incorporation affect the calculation of the earnings yield?

- a) Increases the earnings yield**
- b) Decreases the earnings yield
- c) No impact on the earnings yield
- d) Eliminates the earnings yield

48. The allocation of profit prior to incorporation may involve adjustments for:

- a) Depreciation
- b) Amortization
- c) Fair value changes
- d) All of the above**

49. How does profit prior to incorporation impact the calculation of the interest coverage ratio?

- a) Increases the ratio
- b) Decreases the ratio
- c) No impact on the ratio**
- d) Redefines the ratio formula

50. Profit prior to incorporation is relevant for companies engaged in:

- a) Hedging activities
- b) Lease accounting**
- c) Stock option plans
- d) Pension accounting

51. What is the purpose of preparing final accounts for a company?

- a) Internal control
- b) Tax assessment
- c) External reporting**
- d) Budgeting

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52. Which financial statement provides a summary of a company's revenues and expenses over a specific period?

- a) Balance sheet
- b) Income statement**
- c) Cash flow statement
- d) Statement of changes in equity

53. The final accounts of a company include:

- a) Only the balance sheet
- b) Only the income statement
- c) Both the balance sheet and income statement**
- d) Neither the balance sheet nor income statement

54. Which section of the income statement includes the cost of goods sold (COGS)?

- a) Operating expenses
- b) Other income
- c) Gross profit**
- d) Net profit

55. What is the primary purpose of the balance sheet?

- a) To show the company's profitability
- b) To provide details of cash transactions
- c) To depict the financial position at a specific date**
- d) To report changes in equity over time

56. The income statement is also known as:

- a) Statement of financial position
- b) Statement of cash flows

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c) Profit and loss statement

d) Statement of changes in equity

57. Which financial statement reflects the owner's equity in a company?

a) Income statement

b) Statement of changes in equity

c) Cash flow statement

d) Balance sheet

58. Which term is used for the excess of total revenue over total expenses in the income statement?

a) Net loss

b) Gross profit

c) Net profit

d) Operating profit

59. In the balance sheet, assets are generally listed in order of _____

a) Liquidity

b) Maturity

c) Alphabetical order

d) Random order

60. Which financial statement provides information about a company's cash inflows and outflows?

a) Income statement

b) Balance sheet

c) Cash flow statement

d) Statement of changes in equity

61. The balance sheet equation is represented as _____

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- a) Assets = Liabilities - Equity
- b) Assets = Liabilities + Equity**
- c) Assets = Equity - Liabilities
- d) Assets = Liabilities x Equity

62. Which of the following is considered a long-term liability in the balance sheet?

- a) Accounts payable
- b) Short-term loans
- c) Bonds payable**
- d) Accrued expenses

63. Which financial statement is essential for analyzing a company's ability to generate cash?

- a) Income statement
- b) Statement of changes in equity
- c) Cash flow statement**
- d) Balance sheet

64. The income statement covers a period of:

- a) One day
- b) One month
- c) One year**
- d) An indefinite period

65. Which section of the income statement includes operating expenses such as salaries and rent?

- a) Cost of goods sold (COGS)
- b) Gross profit
- c) Operating expenses**
- d) Other income

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66. Retained earnings in the statement of changes in equity represent:

- a) Dividends paid to shareholders
- b) Net income retained in the business**
- c) Contributions from new shareholders
- d) Changes in the fair value of assets

67. Which financial statement provides a snapshot of a company's financial position at a specific point in time?

- a) Income statement
- b) Statement of changes in equity
- c) Cash flow statement
- d) Balance sheet**

68. What does the term "depreciation" refer to in the context of financial statements?

- a) Increase in the value of assets
- b) Allocation of the cost of an asset over its useful life**
- c) Distribution of profits to shareholders
- d) Increase in the market value of equity

69. The formula for calculating net profit in the income statement is _____

- a) Total revenue - Total expenses**
- b) Gross profit - Operating expenses
- c) Operating profit + Other income
- d) Gross profit - Cost of goods sold (COGS)

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70. What is the purpose of the "retained earnings" section in the statement of changes in equity?

- a) To show the change in the market value of equity
- b) To demonstrate the distribution of dividends
- c) To display the accumulation of net income over time**
- d) To reflect changes in the fair value of assets

71. Which financial statement helps in assessing a company's ability to meet short-term obligations?

- a) Income statement
- b) Statement of changes in equity
- c) Cash flow statement
- d) Balance sheet**

72. The cash flow statement is divided into three main sections, namely:

- a) Operating, investing, and financing activities**
- b) Revenues, expenses, and dividends
- c) Current assets, fixed assets, and liabilities
- d) Cash inflows, outflows, and net cash position

73. What does the term "working capital" represent in the context of the balance sheet?

- a) Total assets minus total liabilities
- b) Current assets minus current liabilities**
- c) Gross profit minus operating expenses

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d) Net income minus dividends

74. The income statement is also known as the _____

- a) Statement of financial position
- b) Statement of comprehensive income
- c) Profit and loss statement**
- d) Statement of retained earnings

75. How is net income from the income statement linked to the balance sheet?

- a) Net income is reported as a liability
- b) Net income increases total assets
- c) Net income reduces total equity
- d) Net income is transferred to retained earnings**

76. Which financial statement is used to determine a company's ability to pay its long-term debts?

- a) Income statement
- b) Statement of changes in equity
- c) Cash flow statement
- d) Balance sheet**

77. What is the primary purpose of the "cash and cash equivalents" section in the balance sheet?

- a) To show the company's total assets
- b) To demonstrate the distribution of dividends
- c) To highlight the company's liquidity position**

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d) To reflect changes in the fair value of assets

78. In the statement of changes in equity, what does the term "common stock" represent?

a) Dividends paid to shareholders

b) The ownership interest of common shareholders

c) Retained earnings

d) Changes in the fair value of assets

79. How is the cost of goods sold (COGS) calculated in the income statement?

a) Total revenue - Gross profit

b) Gross profit - Operating expenses

c) Total revenue - Net profit

d) Net profit - Total expenses

80. Which financial statement provides information about changes in a company's equity during a specific period?

a) Income statement

b) Statement of changes in equity

c) Cash flow statement

d) Balance sheet

81. What does the term "dividends" represent in the statement of changes in equity?

a) Accumulated net income

b) Distribution of profits to shareholders

c) Contributions from new shareholders

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d) Changes in the fair value of assets

82. How is the book value per share calculated using the balance sheet?

a) Total assets / Number of shares outstanding

b) Total liabilities / Number of shares outstanding

c) Total equity / Number of shares outstanding

d) Total revenue / Number of shares outstanding

83. What is the purpose of the "operating activities" section in the cash flow statement?

a) To show changes in long-term investments

b) To report cash transactions related to the core business activities

c) To highlight changes in equity over time

d) To reflect changes in the fair value of assets

84. In the income statement, what does the term "other income" include?

a) Revenues from the sale of goods

b) Interest income and gains on investments

c) Operating expenses

d) Cost of goods sold (COGS)

85. Which financial statement is used to assess a company's ability to generate profit from its core operations?

a) Income statement

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- b) Statement of changes in equity
- c) Cash flow statement
- d) Balance sheet

86. How does the distribution of dividends impact the balance sheet?

- a) Increases total assets
- b) Decreases total liabilities
- c) Decreases total equity**
- d) Has no impact on the balance sheet

87. The income statement is characterized by:

- a) Beginning and ending balances
- b) Revenues and expenses over a specific period**
- c) Changes in equity over time
- d) A snapshot of financial position at a point in time

88. Which financial statement provides information about a company's long-term investments and financing activities?

- a) Income statement
- b) Statement of changes in equity
- c) Cash flow statement**
- d) Balance sheet

89. The concept of "double-entry accounting" is most closely associated with:

- a) The income statement

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- b) The cash flow statement
- c) The balance sheet**
- d) The statement of changes in equity

90. In the context of the income statement, what does the term "gross profit" represent?

- a) Total revenue minus total expenses
- b) Revenue from core business activities
- c) Net income before taxes
- d) Sales minus the cost of goods sold (COGS)**

91. The cash flow statement helps in analyzing a company's:

- a) Short-term liquidity**
- b) Long-term investments
- c) Changes in equity over time
- d) Profitability over a specific period

92. Which financial statement reflects the change in the value of a company's common stock?

- a) Income statement
- b) Statement of changes in equity**
- c) Cash flow statement
- d) Balance sheet

93. In the cash flow statement, what does a positive value in the "financing activities" section indicate?

- a) Cash received from operating activities

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- b) Cash used for investing activities
- c) Cash raised from financing sources**
- d) Cash used for debt repayment

94. The income statement provides information about a company's:

- a) Long-term investments
- b) Short-term liabilities
- c) Core business operations**
- d) Cash inflows and outflows

95. How is the net cash provided by operating activities calculated in the cash flow statement?

- a) Cash received from customers - Cash paid to suppliers
- b) Net income + Depreciation**
- c) Cash received from financing activities - Cash paid for investments
- d) Changes in equity over time

96. Which financial statement provides details about a company's investments in stocks, bonds, and other securities?

- a) Income statement
- b) Statement of changes in equity
- c) Cash flow statement
- d) Balance sheet**

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97. The balance sheet provides information about a company's _____

- a) Profitability over a specific period
- b) Cash inflows and outflows
- c) Financial position at a specific date**
- d) Changes in equity over time

98. In the context of the balance sheet, what does the term "current liabilities" include?

- a) Long-term debts
- b) Short-term debts**
- c) Common stock
- d) Retained earnings

99. The statement of changes in equity is used to analyze:

- a) Profitability over a specific period
- b) Changes in the market value of equity
- c) Distribution of profits to shareholders**
- d) Short-term liquidity

100. The amount of debtors due for more than _____ months is to be shown separately

- a) 2
- b) 5
- c) 9
- c) 6**

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ANSWERS:

1.c, 2.a, 3.a, 4.b, 5.b, 6.a, 7.c, 8.a, 9.c, 10.a, 11.d, 12.b,
13.c, 14.b, 15.c, 16.d, 17.b, 18.c, 19.b, 20.b, 21.a, 22.c,
23.b, 24.c, 25.b, 26.c, 27.b, 28.d, 29.a, 30.b, 31.a, 32.b,
33.b, 34.a, 35.c, 36.c, 37.b, 38.c, 39.d, 40.c, 41.a, 42.c,
43.a, 44.d, 45.c, 46.a, 47.a, 48.d, 49.c, 50.b, 51.c, 52.b,
53.c, 54.c, 55.c, 56.c, 57.b, 58.c, 59.a, 60.c, 61.b, 62.c,
63.c, 64.c, 65.c, 66.b, 67.d, 68.b, 69.a, 70.c, 71.d, 72.a,
73.b, 74.c, 75.d, 76.d, 77.c, 78.b, 79.a, 80.b, 81.b, 82.c,
83.b, 84.b, 85.a, 86.c, 87.b, 88.c, 89.c, 90.d, 91.a, 92.b,
93.c, 94.c, 95.b, 96.d, 97.c, 98.b, 99.c, 100.d



Terminology in Corporate Accounting:

1. Equity Share:

A type of security that represents ownership in a company. Equity shareholders have a residual claim on the company's assets and earnings after all debts and preferred stock obligations have been satisfied.

2. Issued Capital:

The total number of shares a company has actually issued to shareholders. It represents the ownership interest that has been distributed to investors.

3. Authorized Capital:

The maximum amount of share capital that a company is legally allowed to issue, as defined in its memorandum of association.

4. Face Value:

The nominal value of a share as specified in the company's capital structure. It is also known as par value and is used to calculate the initial accounting value of the share.

5. Market Value:

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The current price at which a share is traded in the stock market. It is determined by supply and demand factors in the open market.

6. Rights Issue:

A method of raising capital where existing shareholders are given the right to purchase additional shares at a discounted price before they are offered to the public.

7. Bonus Issue:

An issue of free additional shares to existing shareholders, usually in proportion to their existing holdings. It is a form of reward to shareholders.

8. Dividends:

Payments made by a company to its shareholders out of its profits. Dividends are typically declared as a certain amount per share.

9. Share Premium:

The amount received by a company in excess of the face value of shares during the issuance process. It represents the premium paid by investors for the shares.

10. Underwriting:

The process where a financial institution or underwriter guarantees the sale of a specified number of shares during an initial public offering (IPO) or another equity issuance, providing financial support and risk mitigation to the issuing company..

11. Preference Share:

A class of shares that entitles its holders to receive fixed dividends before common shareholders. In the event of liquidation, preference shareholders have a higher claim on the company's assets compared to common shareholders.

12. Dividend Rate:

The fixed percentage of the face value of preference shares that is paid as a dividend. It is a predetermined rate and is often expressed as a percentage.

13. Cumulative Preference Shares:

Preference shares on which any unpaid dividends accumulate and must be paid before common shareholders receive any dividends. Accumulated dividends must be paid in subsequent years.

14. Non-Cumulative Preference Shares:

Preference shares on which any unpaid dividends do not accumulate. If a dividend is not declared in a particular year, the right to that dividend is forfeited.

15. Redemption:

The process of repurchasing or buying back preference shares by the issuing company. This can be done at a predetermined date or over a period specified in the terms of the issuance.

16. Redemption Premium:

An additional amount paid by the company over the face value of preference shares when they are redeemed. It serves as compensation to preference shareholders for the early redemption of their shares.

17. Convertible Preference Shares:

Preference shares that can be converted into common shares after a specified period or under certain conditions. This provides the shareholder with an option to switch from a fixed-income investment to an equity investment.

18. Callable Preference Shares:

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Shares that can be redeemed by the issuing company before their scheduled maturity date, often at a predetermined price. This provides flexibility for the company to manage its capital structure.

19. Participating Preference Shares:

Preference shares that, in addition to receiving fixed dividends, allow shareholders to participate in the distribution of surplus profits after common shareholders have received their share.

20. Preference Shareholder's Voting Rights:

In general, preference shareholders do not have the same voting rights as common shareholders. However, they may have voting rights in certain exceptional circumstances, such as when the company fails to pay dividends for a specified period.

21. Debenture:

A debt instrument issued by a company that acknowledges a loan and specifies the terms of repayment, including the interest rate and maturity date.

22. Issuer:

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The company or entity that offers and sells debentures to raise capital.

23. Debenture holders:

Individuals or institutions that purchase debentures and become creditors of the issuing company.

24. Coupon Rate:

The fixed annual interest rate paid to debentureholders, expressed as a percentage of the face value of the debenture.

25. Face Value:

The nominal value of the debenture, which represents the principal amount borrowed and is used to calculate interest payments.

26. Maturity Date:

The date on which the principal amount of the debenture becomes due and is repaid to debentureholders.

27. Redemption:

The process of repaying the principal amount of the debenture to debentureholders either at maturity or through early redemption.

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28. Redemption Premium:

An additional amount paid by the issuer over the face value when redeeming debentures before their maturity date.

29. Convertible Debentures:

Debentures that can be converted into equity shares of the issuing company after a specified period or under certain conditions.

30. Callable Debentures:

Debentures that can be redeemed by the issuing company before their scheduled maturity date, often at a predetermined price.

31. Debenture Trustee:

A trustee appointed to protect the interests of debentureholders. The trustee ensures that the issuer complies with the terms of the debenture agreement.

32. Security:

Collateral provided by the issuing company to secure the debentures, which can include assets like land, buildings, or other forms of security.

33. Floating Rate Debentures:

Debentures with variable interest rates that change based on prevailing market interest rates.

34. Credit Rating:

An evaluation of the creditworthiness of the issuing company, influencing the interest rates at which the debentures are issued.

35. Debenture Redemption Reserve (DRR):

A reserve created by companies in India to ensure funds are available for the redemption of debentures.

36. Trust Deed:

A legal document that outlines the terms and conditions of the debenture issuance and the rights and obligations of the issuer and debentureholders.

37. Yield:

The effective interest rate earned by a debentureholder, taking into account the coupon rate and the purchase price.

38. Bearer Debentures:

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Debentures that are not registered in the name of the holder and are transferable by delivery.

39. Sinking Fund:

A fund set up by the issuer to accumulate funds over time for the purpose of redeeming debentures.

40. Listing:

The process of having debentures traded on a stock exchange, providing liquidity to debentureholders.

41. Goodwill:

The intangible asset that represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination.

42. Amortization of Goodwill:

The systematic allocation of the goodwill amount over its estimated useful life. Note that amortization of goodwill is not allowed under certain accounting standards like U.S. GAAP (Generally Accepted Accounting Principles).

43. Impairment of Goodwill:

A reduction in the value of goodwill due to factors such as changes in market conditions or the

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business environment, triggering the need for impairment testing.

44. Fair Value:

The estimated market value of an asset, liability, or business under normal market conditions.

45. EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization):

A measure of a company's operating performance often used in goodwill valuation.

46. Discounted Cash Flow (DCF):

A valuation method that estimates the present value of future cash flows, commonly used in the valuation of intangible assets like goodwill.

47. Market Capitalization:

The total market value of a company's outstanding shares of stock, which can influence the perceived value of its goodwill.

48. Comparable Company Analysis (CCA):

A valuation method that involves comparing financial ratios and other metrics of a company to those of similar companies in the industry.

49. Terminal Value:

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The estimated value of an investment at the end of a forecast period, often a significant component in DCF analysis.

50. Control Premium:

An additional amount paid for a business due to the ability to influence decision-making, often considered in goodwill valuation.

51. Synergy:

The potential additional value created by the combination of two businesses that is greater than the sum of their individual values.

52. Brand Value:

The perceived value of a brand, often considered a component of goodwill.

53. Customer Relationships:

The value associated with established and positive relationships between a business and its customers, contributing to goodwill.

54. Intellectual Property:

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The value associated with patents, trademarks, copyrights, and other intangible assets, contributing to goodwill.

55. Valuation Multiples:

Ratios such as Price/Earnings (P/E) or Enterprise Value/EBITDA used to assess the relative value of a business or its components, including goodwill.

56. Excess Earnings Method:

A valuation approach that estimates the value of goodwill based on the earnings in excess of a fair return on net tangible assets.

57. Controlled Transaction:

A transaction involving the transfer of assets between related parties, used in the comparable uncontrolled transaction (CUT) method of valuation.

58. Royalty Relief Method:

A valuation method that estimates the value of goodwill by considering the relief from paying royalties for the use of intellectual property.

59. Greenfield Method:

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A method of estimating the value of goodwill by determining the cost of recreating the business from scratch.

60. Contingent Consideration:

Payments made in the future based on the achievement of certain financial or operational targets, considered in the valuation of goodwill in business combinations.

61. Market Value of Equity:

The total market value of a company's outstanding shares, calculated by multiplying the current market price per share by the total number of shares.

62. Book Value per Share:

The equity available to common shareholders divided by the number of outstanding common shares, providing a per-share measure of net asset value.

63. Earnings per Share (EPS):

The portion of a company's profit allocated to each outstanding share of common stock, calculated by dividing the net income by the average number of shares.

64. Price-Earnings Ratio (P/E Ratio):

A valuation ratio calculated by dividing the market price per share by the earnings per share, indicating the market's expectation for future earnings growth.

65. Dividend Yield:

The annual dividend income per share expressed as a percentage of the market price per share.

66. Free Cash Flow (FCF):

The cash generated by a company that is available for distribution to shareholders, calculated as operating cash flow minus capital expenditures.

67. Discounted Cash Flow (DCF):

A valuation method that estimates the present value of future cash flows, commonly used to determine the intrinsic value of a share.

68. Beta:

A measure of a stock's risk in relation to the overall market, used in the Capital Asset Pricing Model (CAPM) for determining the cost of equity.

69. Intrinsic Value:

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The estimated true value of a share based on fundamental analysis, discounted cash flows, or other valuation methods.

70. Weighted Average Cost of Capital (WACC):

The average rate of return a company is expected to pay to its investors, including both equity and debt, used in valuation models.

71. Enterprise Value (EV):

The total value of a company's equity and debt, minus its cash and cash equivalents.

72. Liquidation Value:

The value of a company's assets that would be available for distribution to shareholders if the company were to be liquidated.

73. Return on Equity (ROE):

A measure of a company's profitability relative to its equity, calculated as net income divided by shareholders' equity.

74. Price-to-Book Ratio (P/B Ratio):

A ratio calculated by dividing the market price per share by the book value per share, indicating the market's perception of a company's value.

75. Comparable Company Analysis (CCA):

A valuation method that involves comparing financial ratios and other metrics of a company to those of similar companies in the industry.

76. Leverage:

The use of debt to finance a company's operations, influencing the risk and return for shareholders.

77. Market Capitalization:

The total market value of a company's outstanding shares, often used as a quick measure of a company's size.

78. Terminal Value:

The estimated value of an investment at the end of a forecast period, often a significant component in DCF analysis.

79. Dividend Discount Model (DDM):

A valuation method that values a share based on the present value of its future dividends.

80. PEG Ratio (Price/Earnings to Growth Ratio):

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A valuation ratio that considers both the P/E ratio and the expected earnings growth rate, providing a more comprehensive view of a stock's valuation.

81. Pre-incorporation Expenses:

Costs incurred by individuals or promoters before the formal incorporation of a company, such as legal fees, registration costs, and promotional expenses.

82. Promoters:

Individuals or groups who take the initiative to form a company, often incurring expenses to get the business off the ground.

83. Promoters' Profit:

Any profit earned by the promoters from activities related to the formation of the company before it becomes incorporated.

84. Memorandum of Association (MOA):

A legal document that outlines the company's objectives, as well as the scope of its activities, which is prepared during the pre-incorporation phase.

85. Articles of Association (AOA):

A document that specifies the rules for the internal management and operation of a company, also prepared during the pre-incorporation phase.

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86. Subscription of Shares:

The commitment by individuals to purchase shares in the company before it is officially incorporated.

87. Share Application Money:

The funds received from individuals who have applied for shares in the company before it is incorporated.

88. Incorporation:

The legal process of forming a company, involving the submission of necessary documents to the regulatory authorities.

89. Certificate of Incorporation:

A legal document issued by the regulatory authorities confirming that a company has been officially incorporated.

90. Pre-incorporation Contracts:

Contracts entered into by promoters on behalf of the company before its formal incorporation.

91. Company Prospectus:

A document that provides details about a company, its operations, and its financial status, often

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issued to potential investors during the pre-incorporation phase.

92. Promoter's Shareholding:

The initial ownership stake held by promoters in the company before it is incorporated.

93. Bank Account Opening:

The process of opening a bank account in the company's name during the pre-incorporation phase.

94. Promoters' Contribution:

The initial capital or resources contributed by promoters to start the company.

95. Due Diligence:

The process of investigating and evaluating the financial and legal aspects of a company before its incorporation.

96. Prospective Financial Statements:

Financial projections prepared by promoters to showcase the expected financial performance of the company.

97. Tax Planning:

Strategies employed by promoters during the pre-incorporation phase to optimize tax liabilities once the company is operational.

98. Registrar of Companies (ROC):

The government office responsible for registering and regulating companies, overseeing the process of incorporation.

99. CIN (Corporate Identification Number):

A unique identifier assigned to companies upon incorporation by the Registrar of Companies.

100. Statutory Compliance:

Ensuring that all legal and regulatory requirements are met during the pre-incorporation phase and afterward.

101. Financial Statements:

Summarized reports that present the financial performance and position of a company. The main financial statements include the income statement, balance sheet, and cash flow statement.

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102. Income Statement:

A financial statement that summarizes the revenues, expenses, and profits or losses of a company over a specific period.

103. Balance Sheet:

A financial statement that provides a snapshot of a company's assets, liabilities, and equity at a specific point in time.

104. Cash Flow Statement:

A financial statement that shows the cash inflows and outflows of a company over a specific period, categorized into operating, investing, and financing activities.

105. Revenue:

The total amount of money earned by a company through its primary business activities.

106. Expenses:

Costs incurred by a company in its operations to generate revenue.

107. Net Income:

The profit or loss of a company, calculated as revenue minus expenses.

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108. Gross Profit:

Revenue minus the cost of goods sold, representing the profit before deducting operating expenses.

109. Cost of Goods Sold (COGS):

The direct costs associated with producing goods or services sold by a company.

110. Operating Expenses:

Costs incurred in the day-to-day operations of a company, including salaries, rent, and utilities.

111. Depreciation:

The systematic allocation of the cost of a tangible asset over its useful life.

112. Amortization:

The process of spreading the cost of intangible assets over their useful life.

113. Dividends:

Payments made by a company to its shareholders from profits.

114. Retained Earnings:

The accumulated profits that have not been distributed as dividends.

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115. Share Capital:

The total value of shares issued by a company to its shareholders.

116. Reserves and Surplus:

Amounts set aside from profits for specific purposes or accumulated over time.

117. Earnings per Share (EPS):

The portion of a company's profit allocated to each outstanding share of common stock.

118. Return on Investment (ROI):

A measure of a company's profitability relative to its investments.

119. Audit Report:

A report issued by an independent auditor expressing an opinion on the fairness of a company's financial statements.

120. Comparative Financial Statements:

Financial statements for multiple periods presented side by side to facilitate analysis and comparison.

ABOUT THE AUTH

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A financial instrument that gives the holder the right to buy the company's shares at a specific price within a defined period.



OR

Abbreviation used in Corporate Accounting:

1. IPO: Initial Public Offering

Explanation: The first time a company offers its shares to the public, allowing investors to buy them on a stock exchange.

2. FPO: Follow-on Public Offering

Explanation: Additional shares offered to the public by a company that has already conducted an IPO.

3. ADR: American Depositary Receipt

Explanation: A certificate issued by a U.S. bank representing shares in a foreign stock traded on a U.S. exchange.

4. GDR: Global Depositary Receipt

Explanation: Similar to an ADR, but traded on exchanges worldwide, representing shares in a foreign company.

5. SEBI: Securities and Exchange Board of India

Explanation: The regulatory body overseeing securities markets in India.

6. EPS: Earnings Per Share

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Explanation: A financial metric that represents the portion of a company's profit allocated to each outstanding share of common stock.

7. ROE: Return on Equity

Explanation: A measure of a company's profitability that calculates how much profit a company generates with the shareholders' equity.

8. PE Ratio: Price-to-Earnings Ratio

Explanation: A valuation ratio calculated by dividing the market price per share by the earnings per share.

9. IRR: Internal Rate of Return

Explanation: A financial metric used to assess the profitability of an investment.

10. SPO: Seasoned Public Offering

Explanation: An additional issuance of shares by a company that is already publicly traded.

11. AGM: Annual General Meeting

Explanation: A yearly meeting of the shareholders of a company to discuss and vote on important matters.

12. ESOP: Employee Stock Ownership Plan

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Explanation: A program that allows employees to become partial owners of a company by acquiring shares.

13. CBT: Capitalization of Bonus Issue

Explanation: The process of accounting for a bonus issue, where additional shares are issued to existing shareholders.

14. RBI: Reserve Bank of India

Explanation: The central banking institution of India, regulating the issue and supply of the Indian Rupee.

15. NAV: Net Asset Value

Explanation: A measure of a mutual fund's value, calculated as the total value of its assets minus liabilities, divided by the number of outstanding units.

16. American Depositary Receipt/Global Depositary Receipt Issue:

Explanation: The process of issuing ADRs or GDRs to allow foreign investors to trade shares in the company's stock.

17. QIP: Qualified Institutional Placement

Explanation: A method of raising capital by issuing shares to institutional investors.

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19. DRS: Depository Receipts Scheme

Explanation: A scheme allowing foreign companies to list their shares in the Indian stock market.

20. CAGR: Compound Annual Growth Rate

Explanation: A measure of an investment's annual growth rate over time, with the effect of compounding taken into account.

21. PS: Preference Shares

Explanation: The abbreviation for preference shares, which represent a class of shares that have certain privileges over common shares, such as priority in dividends.

22. PDS: Preference Shareholders

Explanation: Refers to the individuals or entities that hold preference shares in a company.

23. CRPS: Cumulative Redeemable Preference Shares

Explanation: A type of preference share where unpaid dividends accumulate and must be paid before common shareholders receive dividends.

24. NCPS: Non-Cumulative Preference Shares

Explanation: Preference shares on which any unpaid dividends do not accumulate.

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25. PR: Preference Redemption

Explanation: The process of redeeming or repurchasing preference shares by the issuing company.

26. PRP: Preference Redemption Premium

Explanation: An additional amount paid by the issuer over the face value when redeeming preference shares.

27. CPS: Convertible Preference Shares

Explanation: Preference shares that can be converted into equity shares after a specified period or under certain conditions.

28. CDS: Convertible Debt Securities

Explanation: Similar to convertible preference shares, these are debt securities that can be converted into equity shares.

29. PPS: Participating Preference Shares

Explanation: Preference shares that, in addition to receiving fixed dividends, allow shareholders to participate in the distribution of surplus profits.

30. DPS: Dividends per Share

Explanation: The total dividends paid by a company divided by the number of outstanding shares.

31. REPS: Redeemable Preference Shares

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Explanation: Preference shares that can be redeemed by the issuing company after a specified period or under certain conditions.

32. FDPS: Fixed Dividend Preference Shares

Explanation: Preference shares that pay a fixed dividend rate.

33. IDPS: Irredeemable Preference Shares

Explanation: Preference shares with no maturity date and cannot be redeemed by the issuing company.

34. RPS: Redeemable Preference Shares

Explanation: Preference shares that can be redeemed by the issuing company after a specified period or under certain conditions.

35. ERP: Exchange Rate Protection

Explanation: A provision to protect foreign currency preference shareholders from exchange rate fluctuations.

36. CAPS: Cumulative Adjustable Preference Shares

Explanation: Preference shares where the dividend rate is adjustable but unpaid dividends accumulate.

37. VRPS: Variable Rate Preference Shares

Explanation: Preference shares with a variable dividend rate, often linked to a benchmark interest rate.

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38. FPR: Fixed Price Redeemable Preference Shares

Explanation: Preference shares that are redeemable at a predetermined fixed price.

39. RHP: Red Herring Prospectus

Explanation: A preliminary document issued during the IPO process, providing information about the company's business and securities being offered.

40. ISIN: International Securities Identification Number

Explanation: A unique code assigned to securities, including preference shares, for identification and tracking.

41. DB: Debentures

Explanation: The general abbreviation for debentures, which are debt instruments issued by a company.

42. NC Deb.: Non-Convertible Debentures

Explanation: Debentures that cannot be converted into equity shares.

43. CDB: Convertible Debentures

Explanation: Debentures that can be converted into equity shares.

44. CRD: Cumulative Redeemable Debentures

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Explanation: Debentures on which unpaid interest accumulates and must be paid before redemption.

45. NCD: Non-Convertible Debentures

Explanation: Similar to NC Deb., indicating debentures that cannot be converted into equity shares.

46. ICD: Irredeemable Convertible Debentures

Explanation: Debentures that are convertible into equity shares and have no maturity date.

47. RD: Redeemable Debentures

Explanation: Debentures that can be repaid by the issuing company on or after a specified date.

48. IRVD: Irredeemable Debentures

Explanation: Debentures with no maturity date and cannot be redeemed by the issuing company.

49. PDD: Premium on Debentures

Explanation: The amount paid by investors over the face value when purchasing debentures.

50. DRP: Debenture Redemption Premium

Explanation: An additional amount paid by the issuer over the face value when redeeming debentures.

51. IAD: Interest on Application Money for Debentures

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Explanation: Interest paid on the application money received from investors during the debenture subscription period.

52. DPS: Debenture Redemption Reserve

Explanation: A reserve created by companies to ensure funds are available for the redemption of debentures.

53. CDR: Corporate Debt Restructuring

Explanation: The process of reorganizing a company's outstanding debt obligations, which may include debentures.

54. TDS: Tax Deducted at Source

Explanation: The withholding of a portion of interest payments on debentures for tax purposes.

55. DRS: Debenture Redemption Scheme

Explanation: A scheme outlining the process and timeline for redeeming debentures.

56. DBCR: Debenture Cover Ratio

Explanation: A ratio that assesses the company's ability to meet its debenture redemption obligations from profits.

57. DSCR: Debt Service Coverage Ratio

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Explanation: A financial ratio that measures a company's ability to meet its debt obligations, including interest and principal repayment.

58. DIPAM: Department of Investment and Public Asset Management

Explanation: A government agency in India responsible for managing disinvestment and strategic sales of government assets, which may include debentures.

59. IR: Interest Rate

Explanation: The rate at which interest is paid on the face value of the debentures.

60. DIN: Debenture Information Memorandum

Explanation: A document providing detailed information about the terms and conditions of the debenture issuance.

61. ROG: Return on Goodwill

Explanation: A measure of the return generated on the investment in goodwill.

62. DCF: Discounted Cash Flow

Explanation: A valuation method that estimates the present value of future cash flows.

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63. **EBITDA:** Earnings Before Interest, Taxes, Depreciation, and Amortization

Explanation: A measure of operating performance often used in valuation.

64. **P/E:** Price/Earnings Ratio

Explanation: A ratio calculated by dividing the market price per share by the earnings per share.

65. **EV:** Enterprise Value

Explanation: The total value of a company's equity and debt, minus its cash and cash equivalents.

67. **CAGR:** Compound Annual Growth Rate**

Explanation: A measure of an investment's annual growth rate over time.

68. **IRR:** Internal Rate of Return**

Explanation: A financial metric used to assess the profitability of an investment.

69. **CAPM:** Capital Asset Pricing Model

Explanation: A model used to determine the required rate of return on an investment, including goodwill.

70. **WACC:** Weighted Average Cost of Capital

Explanation: The average rate of return a company is expected to pay to its investors.

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71. CCM: Comparable Company Analysis

Explanation: A valuation method that involves comparing financial metrics to similar companies in the industry.

72. RFP: Royalty Relief Method

Explanation: A valuation method estimating the value of goodwill by considering the relief from paying royalties for the use of intellectual property.

73. DVM: Direct Valuation Method

Explanation: A method for valuing goodwill based on the present value of expected future cash flows.

74. FGI: Forecasted Growth Income

Explanation: A component in the income-based approach to goodwill valuation.

75. TV: Terminal Value

Explanation: The estimated value of an investment at the end of a forecast period.

76. PRM: Profitable Relationship Method

Explanation: A method of valuing goodwill based on the profitability of relationships with customers or clients.

77. CSR: Cost Savings Recognition

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Explanation: Recognition of cost savings as a factor in determining the value of goodwill.

78. GRM: Goodwill to Revenue Multiple

Explanation: A ratio that expresses the relationship between revenue and the value of goodwill.

79. DP Method: Comparable Uncontrolled Price Method**

Explanation: A transfer pricing method used to determine the arm's length price for the transfer of goods and services.

80. SOP: Sum of Parts Valuation

Explanation: A valuation approach that values each business segment separately, including the goodwill associated with each segment.

81. SCV: Share Capital Valuation

Explanation: The process of determining the value of a company's share capital.

82. EPS: Earnings Per Share

Explanation: A financial metric representing the portion of a company's profit allocated to each outstanding share of common stock.

83. BVPS: Book Value Per Share

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Explanation: The equity available to common shareholders divided by the number of outstanding common shares.

84. FS: Financial Statements

Explanation: Summarized reports that present the financial performance and position of a business.

85. IS: Income Statement

Explanation: A financial statement that shows a company's revenues and expenses over a specific period.

86. BS: Balance Sheet

Explanation: A financial statement that provides a snapshot of a company's assets, liabilities, and equity at a specific point in time.

87. CF: Cash Flow Statement

Explanation: A financial statement that shows how changes in balance sheet accounts affect cash and cash equivalents.

88. COGS: Cost of Goods Sold

Explanation: The direct costs associated with producing goods or services sold by a company.

89. DR: Debit

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Explanation: An entry that increases assets and expenses and decreases liabilities and income.

90. CR: Credit

Explanation: An entry that decreases assets and expenses and increases liabilities and income.

92. GAAP: Generally Accepted Accounting Principles

Explanation: Standard accounting rules and procedures used to prepare and present financial statements.

93. IAS: International Accounting Standards

Explanation: A set of accounting standards developed by the International Accounting Standards Board.

94. IFRS: International Financial Reporting Standards

Explanation: A set of international accounting standards developed by the International Accounting Standards Board.

95. CAGR: Compound Annual Growth Rate

Explanation: A measure of an investment's annual growth rate over time.

Important Definitions in Corporate Accounting:

1. Equity Shares:

- Equity shares represent a claim on the residual assets of a company after all debts and other obligations have been settled.
- Shareholders who own equity shares are entitled to a portion of the company's profits, distributed in the form of dividends.
- Shareholders also typically have voting rights, allowing them to participate in key decisions affecting the company.

2. Issue of Equity Shares:

- The issue of equity shares involves the company raising capital by offering new shares to investors.
- This process usually takes place through an initial public offering (IPO) when a private company goes public or through subsequent offerings to the public or existing shareholders.
- The company determines the number of shares to be issued, the offer price, and other terms.

3. Primary Market:

- The primary market is where the initial issue of equity shares occurs. It involves the sale of new securities directly by the company to investors.
- Companies may use the funds raised from issuing equity shares for various purposes, such as expansion, research and development, debt repayment, or other strategic initiatives.

4. Secondary Market:

- After the initial issue, equity shares can be bought and sold on the secondary market, such as stock exchanges.
- Prices in the secondary market are determined by supply and demand factors and reflect investors' perceptions of the company's future performance.

5. Investor Considerations:

- Investors considering the purchase of equity shares should evaluate the financial health of the company, its growth prospects, management quality, and other relevant factors.

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- Equity investments carry risks, as the value of shares can fluctuate based Preference shares, also known as preferred stock, are a type of equity security that combines features of both equity and debt. When a company issues preference shares, it means that it is raising capital by offering these shares to investors, and these shares come with certain preferences and features that distinguish them from common equity shares.
- Here's a breakdown of the key components related to the issue and redemption of preference shares:

6. Preference Share Issue:

- The issue of preference shares involves a company offering a specific class of shares to investors in the primary market.
- Preference shares give their holders a preferential right over common shareholders in terms of dividends and distribution of assets in the event of liquidation.

7. Types of Preferences:-

Dividend Preference:

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Preference shareholders have a right to receive a fixed rate of dividend before any dividend is paid to common shareholders.

Asset Preference:

In the event of liquidation, preference shareholders have a prior claim on the company's assets before common shareholders are entitled to receive their share.

8. Redemption of Preference Shares:

- Redemption refers to the process of repurchasing or retiring shares. Companies may have the option to redeem preference shares at a predetermined time or under specific conditions.
- The terms of redemption are usually outlined at the time of the issuance of preference shares and may include a fixed redemption date or conditions that trigger redemption.

9. Methods of Redemption:-

- **Redemption at Par:** The company redeems the preference shares at their face value.
- **Redemption at Premium:** The company redeems the preference shares at a price higher than their face value, usually when the market value of the shares has increased.

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- **Redemption at a Discount:** The company redeems the preference shares at a price lower than their face value, although this is less common.

10. Optional and Mandatory Redemption:-

- **Optional Redemption:** The company has the discretion to redeem the preference shares at a certain point, often after a specified period.
- **Mandatory Redemption:** The terms of issuance may require the company to redeem the preference shares under certain conditions, such as reaching a specific maturity date.

11. Investor Considerations:

- Investors in preference shares should carefully review the terms of the preference share issuance, including dividend rates, redemption provisions, and other relevant features.
- Preference shares are considered a hybrid security, providing a balance between the fixed income characteristic of debt and the equity participation found in common shares.

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- In summary, the issue and redemption of preference shares involve a company raising capital by offering a specific class of shares with preferential rights to investors. Redemption refers to the repurchase or retirement of these shares, and the terms are specified at the time of issuance on market conditions and the performance of the company.

12. Debenture:

Debentures are debt instruments issued by a company or government entity as a form of long-term borrowing. When a company issues debentures, it means that it is raising funds by borrowing money from investors. The issuer of the debentures agrees to pay periodic interest to the debenture holders and to repay the principal amount at maturity.

13. Issue of Debentures:

The issue of debentures involves a company raising capital by issuing these debt instruments to investors.

Debenture holders are essentially creditors of the company, lending money in exchange for the promise of regular interest payments and the return of the principal amount at a specified maturity date.

14. Types of Debentures:-

Secured Debentures:

These are backed by specific assets of the company, providing a level of security for debenture holders.

Unsecured or Naked Debentures:

These are not backed by any specific assets and rely on the general creditworthiness of the issuing company.

15. Interest Payments:

Debenture holders receive periodic interest payments from the issuing company. The interest rate and payment frequency are predetermined and specified in the terms of the debenture issuance.

16. Redemption of Debentures:

Redemption refers to the repayment of the principal amount by the company to the debenture holders.

The terms of redemption, including the redemption date and method, are typically outlined at the time of the debenture issuance.

17. Methods of Redemption:

Redemption at Par: The company repays the debentures at their face value.

Redemption at Premium:The company repays the debentures at a price higher than their face value, often when interest rates have declined.

Redemption at a Discount:The company repays the debentures at a price lower than their face value, although this is less common.

18. Optional and Mandatory Redemption:-

Optional Redemption:

The company may have the option to redeem the debentures before the specified maturity date.

Mandatory Redemption:

The terms of issuance may require the company to redeem the debentures at a certain point, such as reaching a specific maturity date.

19.Sinking Fund:

Some debentures may have a sinking fund provision, where the issuer sets aside funds over time to facilitate the redemption of debentures.

20. Goodwill:

Goodwill is an intangible asset that represents the excess of the purchase price of a business over the fair value of its identifiable net assets. The valuation of goodwill is the process of determining the monetary value assigned to this intangible asset. Goodwill typically arises in situations where one company acquires another,

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and the purchase price paid exceeds the net tangible assets acquired.

21. Calculation of Goodwill:

Goodwill is calculated as the difference between the purchase price or acquisition cost and the fair value of the identifiable net assets acquired.

22. Components of Goodwill:

Goodwill encompasses factors such as the reputation of the business, customer relationships, brand value, intellectual property, and other intangible elements that contribute to the company's earning power.

23. Valuation Methods:

- There are several methods used to determine the value of goodwill. Common methods include the income approach, market approach, and cost approach.
- The income approach often involves estimating the present value of the future economic benefits associated with the acquired business.
- The market approach compares the subject company to similar businesses in the market.
- The cost approach calculates the cost to replace or reproduce the acquired assets.

24. Amortization and Impairment:

- Traditionally, goodwill was subject to amortization, where its value was systematically reduced over time. However, accounting standards have evolved, and as of the most recent standards, goodwill is subject to an annual impairment test.
- Impairment testing involves assessing whether the carrying amount of goodwill on the company's books exceeds its fair value. If so, an impairment loss is recognized.

25. Financial Reporting:

Goodwill is reported on the balance sheet as an intangible asset. The value of goodwill is reviewed periodically, and adjustments are made if there are indications of impairment.

26. Relevance in Mergers and Acquisitions:

Goodwill is a crucial element in the valuation of a business during mergers and acquisitions. It reflects the premium paid for acquiring the business's intangible assets and future earning potential.

27. Disclosure Requirements:

Companies are required to disclose information about the components of goodwill, changes in its

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carrying amount, and any impairment losses recognized in their financial statements.

28. Intrinsic Value:

The intrinsic value of a share is its true underlying value based on the company's fundamentals. Fundamental analysis involves assessing financial statements, earnings, growth prospects, and other relevant factors to estimate the intrinsic value.

29. Market Value:

Market value, or market capitalization, is the total value of a company's outstanding shares in the stock market. It is determined by multiplying the current market price per share by the total number of shares outstanding.

30. Valuation Methods:-

Comparable Company Analysis (CCA):

This method involves comparing the target company's financial metrics to those of similar publicly traded companies to determine a relative valuation.

Discounted Cash Flow (DCF):

DCF involves estimating the present value of the company's future cash flows, taking into account the time value of money.

Dividend Discount Model (DDM):

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DDM estimates the value of a share based on the present value of expected future dividends. This method is particularly applicable to companies that pay regular dividends.

31. Book Value:

Book value is the net asset value of a company, calculated by subtracting liabilities from assets. The book value per share is derived by dividing the book value by the number of outstanding shares.

32. Liquidation Value:

Liquidation value represents the amount shareholders would receive if a company were to be liquidated. It is calculated by deducting liabilities from the company's assets and dividing the result by the number of shares outstanding.

33. Preferred Stock Considerations:

In cases where a company has issued preferred stock, the valuation of common shares may involve accounting for the preferences and rights of preferred shareholders.

34. Control Premium and Minority Discount:

Control premium is an increase in the value of a company due to the acquisition of a controlling interest. Conversely, a minority discount may be applied to the

valuation of shares when a minority stake is being valued.

35. Fair Value vs. Market Value:

Fair value is an estimate of the price that would be received to sell an asset in an orderly transaction between market participants. It may differ from the current market value, especially in situations where market conditions are not reflective of the true intrinsic value.

36. Underwriting:

Underwriting is a financial service commonly provided by investment banks or other financial institutions. The process involves evaluating, assuming, and managing the risk of issuing securities or insurance. There are two primary contexts in which the term "underwriting" is used: securities underwriting and insurance underwriting.

37. Securities Underwriting:

In the context of securities, underwriting refers to the process by which investment banks or underwriters assess the risk and determine the terms of a new securities issue (such as stocks or bonds) that a company intends to offer to the public.

The underwriter essentially agrees to purchase the entire issue from the issuing company at a predetermined

price and then resells the securities to investors. This helps the issuing company raise capital without having to worry about whether all the securities will be sold to the public.

The securities underwriting process typically involves:-

Risk Assessment: Underwriters assess the risk associated with the securities offering, considering factors such as the financial health of the issuing company, market conditions, and the terms of the offering.

Pricing: Underwriters determine the offering price of the securities, considering market conditions and the need to ensure a successful sale.

Distribution: After agreeing to purchase the securities, underwriters distribute them to investors through various channels, such as brokerage firms.

38. Insurance Underwriting:

In the context of insurance, underwriting refers to the process of evaluating the risk associated with insuring an individual, property, or business and setting the terms and conditions of the insurance policy.

Insurance underwriters assess various factors, including the applicant's health, age, occupation, and

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other relevant information, to determine the risk of insuring the individual or entity.

The insurance underwriting process typically involves:-

Risk Evaluation: Underwriters evaluate the risk associated with the insurance policy, considering factors such as the insured's risk profile, the type of coverage needed, and the potential for claims.

Policy Terms: Based on the risk assessment, underwriters set the terms and conditions of the insurance policy, including the coverage limits, premiums, and any exclusions or conditions.

Acceptance or Rejection: Underwriters decide whether to accept or reject the insurance application based on their assessment of risk. In some cases, they may also apply additional terms, such as higher premiums or specific conditions.

39. Profit Prior to Incorporation

It refers to the earnings or income generated by a business entity before it officially becomes a legally incorporated company. This phase typically occurs during the period when a business is in the process of formation but has not yet completed the formalities of

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company incorporation. In other words, it is the profit earned during the pre-incorporation stage.

During the pre-incorporation period, entrepreneurs and founders may engage in various activities such as market research, product development, and initial business operations to test the feasibility of their business idea. They might generate revenue or incur expenses during this phase, leading to a profit or loss.

Key points related to profit prior to incorporation include:

Legal Status:

Before a business is formally incorporated, it exists in a legal gray area. It is not yet recognized as a distinct legal entity, and the founders may operate as sole proprietors or partners.

Financial Transactions:

The business may engage in financial transactions, such as selling goods or services, incurring expenses, and receiving payments. The financial activities during this period contribute to the profit or loss.

Liability:

Founders and individuals involved in the pre-incorporation activities may be personally liable for the business's obligations and debts during this phase.

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Incorporation Process:

Once the founders decide to formalize the business structure and incorporate, they complete the necessary legal and administrative procedures to establish the company as a separate legal entity.

Transition to Post-Incorporation:

After incorporation, the business becomes a distinct legal entity, and any profits or losses generated during the pre-incorporation period are considered part of its historical financial record.

40. Income Statement (Profit and Loss Account):

The income statement presents the financial performance of the company over a specific period, usually one year. It summarizes revenues, expenses, gains, and losses to determine the net profit or net loss for the period.

Key components of the income statement include:

Revenue: Sales and other income generated by the company.

Expenses: Costs incurred in the course of business operations.

Gains and Losses: Profits or losses from non-operating activities.

Net Profit or Net Loss: The difference between total revenue and total expenses.

41. Balance Sheet:

The balance sheet provides a snapshot of the company's financial position at a specific point in time. It outlines the company's assets, liabilities, and shareholders' equity.

Key components of the balance sheet include:

Assets:

Economic resources owned or controlled by the company, such as cash, accounts receivable, inventory, and property.

Liabilities:

Financial obligations and debts owed by the company, including accounts payable, loans, and accrued expenses.

Shareholders' Equity:

The residual interest in the company's assets after deducting liabilities. It includes common stock, retained earnings, and additional paid-in capital.

42. Purpose of Final Accounts:

Final accounts serve various purposes, including providing information to management, investors, creditors, and regulatory authorities about the company's financial health and performance.

They help stakeholders make informed decisions, assess profitability, evaluate liquidity and solvency, and understand the overall financial stability of the business.

43. Auditing and Compliance:

Final accounts are subject to auditing by external auditors to ensure compliance with accounting standards and regulations.

The audited final accounts are often presented to shareholders during the annual general meeting (AGM).

44. Comparative Analysis:

Final accounts for multiple periods can be compared to analyze trends, identify areas of improvement, and assess the company's financial growth or decline over time.

45. Financial Accounting:

Responsible for preparing financial statements for external stakeholders, such as investors, creditors, and regulatory bodies.

46. Management Accounting:

Focuses on providing internal management with relevant financial information for decision-making and planning.

47. Cost Accounting:

Analyzes and allocates costs to various products, services, or projects to help in pricing decisions and cost control.

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48. Budgeting:

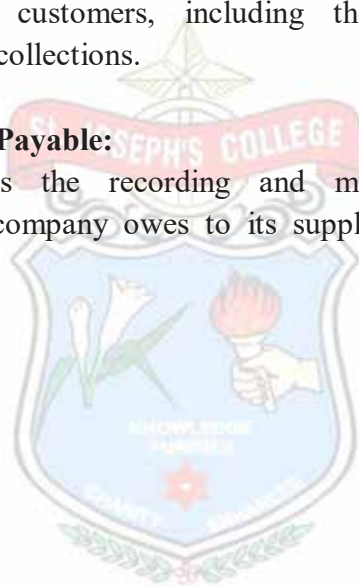
Involves the preparation of budgets to plan and control financial activities and resources within the organization.

49. Accounts Receivable:

Manages and records amounts owed to the company by customers, including the process of invoicing and collections.

50. Accounts Payable:

Handles the recording and management of amounts the company owes to its suppliers and other creditors.



expressing an opinion on the fairness of a company's financial statements.

120. Comparative Financial Statements:

Financial statements for multiple periods presented side by side to facilitate analysis and comparison.

ABOUT THE AUTHOR



Dr.V.Sengamalam Was born in Thuraiyur, Trichy Dt. She is currently working as an Assistant Professor in the Department of Commerce, St.Joseph's College of Arts and Science for Women, Hosur.She was completed M.Com andM.Phil in Bharathidasan University, Thiruchirappalli. She completed her Ph.D., in the year 2015 at Bharathidasan University. She has more than 15 years of teaching experience at the undergraduate level and 14 years of teaching experience at postgraduate level. She has specialization in the area of Corporate Accounting, Cost Accounting, Management Accounting. She has Presented many research articles in International, National and State level Seminar, Conference and symposium. She has published many papers in National and International Journals which includes UGC Care and Scopus. She has contributed chapters in various books. She has guided many M.phil students and Presently guiding one Ph.D Scholar. Received the best senior Faculty Award from Novel Research Academy. Registered under the Ministry of MSME, Government of India.

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