



Midterm Examination MGT401 – Financial Accounting II

Q. 01: Which of the following type of the business is governed under the Partnership Act 1932 in Pakistan?

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

Q. 02: Which of the following is/are not example of current liability?

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

Q. 03: Which of the following are the resources controlled by the entity as a result of a past event from which future economic benefits are expected to flow to the entity?

- Assets
- Gains
- Liabilities
- Expenses

Q. 04: All of the following are the assets of the firm except

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

Q. 05: Which of the following is related to the qualitative characteristics that make financial information useful?

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

Q. 06: Which of the following statement is true regarding Going Concern Concept?

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

Q. 07: Under which of the following assumptions, the Financial Statements are to be prepared?

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

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

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

Q. 09: Which one of the following is not the example of Financial Instruments?

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

Q. 10: The firm uses diminishing balance method for calculating Depreciation. The vehicle costing 20,000 was sold after two years. The sale resulted neither in loss or profit. What was the sale price of the Vehicle?

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

Q. 11: Which of the following is/are not included in the disclosure requirement of Trade Debts with respect to the Companies Ordinance 1984?

- Amount due in respect of goods sold
- Amount due in respect of services rendered
- **Amount due in respect of other contractual obligation**

- Amount due which are in nature of loans or advances.

Q. 12: A firm has two categories of stock. The cost and Net Realizable Value (NRV) of each is as follows:

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

What amount will be disclosed.

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

Q. 13: Which of the following method is suitable for calculating the cost of inventory when actual costs of individual units of merchandise can be determined from the accounting records?

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

Q. 14: Which of the following authority regulates/governs the functioning of Companies?

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

Q. 15: Which of the following is true about the meeting of Directors?

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

Q. 16: Which of the following is true about the Companies Limited by shares?

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

Q. 17: Proper Books of Accounts are kept by every company under which of the following section of Companies Ordinance 1984?

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

Q. 18: Which of the following is not attributable to the Property Plant & Equipment?

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

Q. 19: Which of the following expenditure can not be capitalized?

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

Q. 20: ABC (Pvt) Limited is engaged in production of an asset. The production started on July 31, 2007. The Production completed on July 31, 2008. The works manager checked the asset and required some minor modifications. These modifications were completed on August 30, 2008. The Asset was delivered to Works Manager on September 10, 2008. The production started from such asset on October 01, 2008. When should capitalization cease?

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

Q. 21: Which of the following is an identifiable non-monetary asset without physical substance?

- Tangible Asset

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

Q. 22: Which of the following is the application of research findings or other knowledge to a plan design for the production of new or substantially improved material, devices products, processes, systems or services before the start of commercial production or use?

- Applied Research
- Business Research
- Development
- Accounting

Q. 23: Which of the following is an example of Intangible Asset?

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

Q. 24: Which of the following statement is true under the Cost method for recognition of investments in associated companies?

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

Q. 25: Which of the following IAS is related to Financial Instruments Disclosure and Presentation?

- IAS 27
- IAS 28
- IAS 31
- **IAS 32**

Q. 26: Which of the following is related to IAS 31?

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

Q. 27: Which of the following is true with respect to the disclosure requirement of Investment in Associate?

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

Q. 28: Which of the following is true with respect to the Disclosure requirement in Consolidated Financial Statements?

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

Q. 29: (Marks 3)

If:

- **Cost of investment** **Rs. 17,401,095**
- **Company's share in loss of subsidiary** **Rs. 3,129,441**

Then:

How would you disclose this matter in notes to the accounts for the year 2008?

Answer:

We will disclose this matter in notes to the accounts for the year 2008 as follows:

Investment in Subsidiary:

Cost of Investment	Rs. 17,401,095
Company's share in loss of subsidiary	Rs. 3,129,441
Net Investment	Rs. 14,271,654

Q. 30: (marks 3)

What items are included in Notes to the accounts of Stock In Trade?

Answer:

The following items may be included in Notes to the Accounts of Stock in Trade:

- The Accounting Policy adopted
- Method of Stock Valuation

- Net Realizable Value Concept method
- Cost Method

Q. 31: (Marks 5)

What do you know about the Bad Debts and Doubtful debts? What factors determine the debts are bad?

Answer:

Doubtful Debts:

Such debts which have been doubted that those debts are not recoverable are recorded in the head of Doubtful Debts.

Bad Debts:

Such debts which are not receivables conformingly, are recorded as Bad debts and are written off in the current period as an expense.

Factors that determine bad debts are:

- The debtor has been shifted to foreign forever
- The debtor has been bankrupted
- The debtor has been escaped without any intimation

Q. 32: (Marks 5)

Define Current Liabilities. What heads should be included in Current Liabilities?

Answer:

Current Liabilities:

The current liabilities are all of such liabilities which are expected to be paid within on accounting or period or within 12 months period.

Heads of Current Liabilities:

Mainly the current liabilities are classified into following categories:

- Trade Payables
- Interest Payables
- Accrued Expenses
- Short term Borrowings
- Current portion of long term liabilities
- Others (to be specified)

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