CHAPTER NO- 1 FINAL ACCOUNTS OF CO-OPERATIVE HOUSING SOCIETY.

OBJECTIVE QUESTIONS

MULTIPLE CHIOCE QUESTIONS

1. Any income arising from investment of an ear-marked fund will be credited to
   (a) Ear-marked Fund in the balance sheet (b) Corpus fund in the balance sheet
   (C) Income Expenditure Account (d) Receipts and Payments Accounts
2. A co-op. society operating in Maharashtra, Gujarat and Delhi has to follow
   (a) The Co-operative Societies Act of Maharashtra, if its H.O. is in Maharashtra
   (b) The Co-operative Societies Act of Gujarat, if its H.O. is in Gujarat
   (c) The Co-operative Societies Act of Delhi, if its H.O is in Delhi
   (d) The Multi-state Co-operative Societies Act, 2002
3. Capital of a co-operative society is in the form of
   (a) share capital (b) ear-marked fund
   (c) corpus fund (c) none of the above
4. Working capital of a society as defined under the Maharashtra Co-op. Societies Act includes
   (a) paid-up share capital (b) funds build up out of profit
   (c) money raised by borrowing (d) all of the above (a), (b) and (c)
   (e) none of the above (a), (b) and (c)
5. Under the Maharashtra Co-op. Societies Act, audit of a co-op. Society can be conducted by
   (a) a chartered accountant
   (b) a person who holds a Government diploma in Co-op. accounts and audit
   (c) a person who has served as an auditor in the Co-operative department of the State government
   (d) any of the above
6. Under the Maharashtra Co-op. Societies Act, the term 'member' includes, in addition to a person duly admitted as a member
   (a) only as active member (b) only an associate
   (c) only a nominal member (d) all of the above
7. The whole of the day-to-day management of a Co-operative Society vests in
   (a) the Great Body (b) the Managing Committee
   (c) the Secretary (d) the Chairman
8. Under the Maharashtra Co-op. Societies Act, a society must prepare the following financial statements for an accounting year –
   (a) the profit & loss a/c and the balance sheet
   (b) receipts and payments accounts; the Income and Expenditure A/c; and the Balance Sheet
   (c) the Income and Expenditure A/c; the Balance Sheet; and the Cash Flow Statement the AS 3
   (d) None of the above

9. Under the Maharashtra Co-op. Societies Act, a Society must prepare the Profit & Loss A/c and the Balance Sheet for an accounting year
   (a) as per Schedule VI
   (b) in Form M
   (c) in Form N
   (d) None of the above
10. In this case the members are the owners of the property
   (a) Tenant Co-partnership Societies
   (b) House Mortgage Societies
   (c) Tenant Ownership Societies
   (d) House Construction Societies
11. In the case of such Societies, the land and building do not appear in the balance sheet
   (a) Tenant Co- partnership Societies
   (b) House Mortgage Societies
   (c) Tenant Ownership Societies
   (d) House Construction Societies
12. In the case of such societies, Society as a whole is the owner of the property
   (a) Tenant Co- partnership Societies
   (b) House Mortgage Societies
   (c) Tenant Ownership Societies
   (d) House Construction Societies
13. Contribution toward the sinking fund
   (a) 25 % of the net profit each year
   (b) Rs. 36 per member per year
   (c) ¼ % of the cost of the flat per annum from each member
   (d) Rs. 1/- per member
14. Value of Share of each member in capital of the society
   (a) Rs.250/-
   (b) Rs.300/-
   (c) Rs.1500/-
   (d) Rs.3000/-
15. Non-occupancy Charges are
   (a) Rs. 1/- per member
   (b) at 10% of service charges
   (c) Rs.250/-
   (d) Rs. 36 per member per year
16. Audit charges
   (a) Rs. 1/- per member
   (b) at 10% of service charges
   (c) Rs.250/-
   (d) Rs. 36 per member per year
17. Rs.250/-
   (a) Maximum amount of cash balance
   (b) Audit charges per member
   (c) Share of each member in capital of the society
   (d) Maximum Non-occupancy Charges
18. Bye law No. 67
   (a) Composition of the Charges of the Society
   (b) Break-up of Service Charges of the Society
   (c) Sharing of the Society Charges by the members
   (d) Parking Charges
19. Bye law No. 68
   (a) Composition of the Charges of the Society
   (b) Break-up of Service Charges of the Society
   (c) Sharing of the Society Charges by the members
   (d) Parking Charges

20. Bye law No. 69
    - (a) Sharing of the Society Charges by the members
    - (b) Parking Charges
    - (c) Interest on delayed payment of Charges
    - (d) Non-occupancy Charges

21. Bye law No. 84
    - (a) Break-up of Service Charges of the Society
    - (b) Sharing of the Society Charges by the members
    - (c) Parking Charges
    - (d) Interest on delayed payment of Charges

22. Bye law No.72
    - (a) Interest on delayed payment of Charges
    - (b) Non-occupancy Charges
    - (c) Payment of society Charges
    - (d) Review of case in default of payment

23. Interest on defaulted of charges
    - (a) Bye law No.70
    - (b) Bye law No.71
    - (c) Bye law No.72
    - (d) Bye law No.142

24. Books, Records and Register
    - (a) Bye law No.142
    - (b) Bye law No.145
    - (c) Bye law No.146
    - (d) Bye law No.147

25. Maximum cash balance
    - (a) Bye law No.142
    - (b) Bye law No.145
    - (c) Bye law No.146
    - (d) Bye law No.147

26. Cheque Payments
    - (a) Bye law No.142
    - (b) Bye law No.145
    - (c) Bye law No.146
    - (d) Bye law No.147

27. Final Accounts
    - (a) Bye law No.142
    - (b) Bye law No.145
    - (c) Bye law No.146
    - (d) Bye law No.147

28. A Co-operative housing society has 15 members. All payments in excess of the following limits shall be made by means of A/c Payee Cheque.
    - (a) Rs. 1,500
    - (b) Rs. 3,000
    - (c) Rs. 4,500
    - (d) Rs. 5,000

29. A Co-operative housing society has 45 members. All payments in excess of the following limits shall be made by means of A/c Payee Cheque.
    - (a) Rs. 1,500
    - (b) Rs. 3,000
    - (c) Rs. 4,500
    - (d) Rs. 5,000

30. A Co-operative housing society has 51 members. All payments in excess of the following limits shall be made by means of A/c Payee Cheque.
    - (a) Rs. 1,500
    - (b) Rs. 3,000
    - (c) Rs. 4,500
    - (d) Rs. 5,000

CHECK YOUR ANSWERS

1.	(a)	6.	(d)	11.	(c)	16.	(d)	21.	(c)	26.	(c)
2.	(d)	7.	(b)	12.	(c)	17.	(c)	22.	(a)	27.	(d)
3.	(a)	8.	(b)	13.	(c)	18.	(a)	23.	(c)	28.	(a)
4.	(d)	9.	(c)	14.	(a)	19.	(b)	24.	(a)	29.	(b)
5.	(d)	10.	(c)	15.	(b)	20.	(a)	25.	(b)	30.	(c)

STATE WHETHER TRUE OR FALSE

1. A co-op. Society operating in several states has to follow the co-operative societies Act of all the concerned states.
2. Co-operative society is a corporate body distinct from its members.
3. Under the Maharashtra Co-op. Societies Act, audit of a co-op. society can be conducted by a person other than a Chartered Accountant.
4. Under the Maharashtra Co-op. Societies Act, audit of a co-op. society can be conducted by a person who holds a Government diploma in Co-op. accounts and audit.
5. Under the Maharashtra Co-op. Societies Act, audit of a co-op. society can be conducted by a person who has served as an auditor in the Co-operative department of the State Government.
6. Under the Maharashtra Co-op. Societies Act, the term ‘Member’ includes as associate member.
7. Under the Maharashtra Co-op. Societies Act, a nominal member is not treated as ‘Member’.
8. Under the Maharashtra Co-op. Societies Act, a society must maintain a Register of audit objections and their rectifications.
9. Under the Maharashtra Co-op. Societies Act, every society shall transfer 25 % of the profit to the Reserve fund.
10. Under the Maharashtra Co-op. Societies Act, no society can incur a borrowing liability exceeding two times the total amount of paid up capital, accumulated reserve fund, and building fund minus accumulated losses.
11. Under the Maharashtra Co-op. Societies Act, an auditor has, under certain circumstances, a right to impound the books or documents of a society.
12. Under the Maharashtra Co-op. Societies Act, the Audit fees of co-operative societies are to be decided by the General body.
13. Under the Maharashtra Co-op. Societies Act, auditor has to report on transactions involving infringements of provisions of the Act, Rules and Bye-laws.
14. Under the Maharashtra Co-op. Societies Act, auditors need to report on sums which ought to but have not been brought into account by the society.
15. Under the Maharashtra Co-op. Societies Act, the auditors needs to report on any material impropriety or irregularity in the expenditure or in the realisation of money s due to the society.
16. Under the Maharashtra Co-op. Societies Act, auditors need to report on any money or property belonging to the society which appears to the auditor to be bad or doubtful debt.

17. “Housing Society “also includes society which provides open plots to members for housing.
18. Subject to Bye-laws members of Tenant Co-partnership Societies are free to reconstruct, repair, rebuild, demolish the property according to their free will without any interference from the Society.
19. A Co-operative Society does not prepare Trading and Profit and Loss Account.
20. Income from ‘Non-occupancy charges’ , parking charges, outsiders occupancy charges is normally credited to the Sinking Fund A/c.
21. Entrance fees are treated as revenue receipt.
22. Transfer fees are credited to Repairs Fund.
23. Authorised Share Capital of a Co-operative Housing Society is mentioned in the Memorandum of Association of the Society.
24. Every member on his admission to the society has to purchase 5 shares of Rs.50 each of the housing society.
25. Debit balance in Income & Expenditure Account should be deducted from the Share Capital.
26. Property taxes are divided among the members equally.
27. Water charges are divided among the members on the basis of the area of flats.
28. Normal recurring repairs should be recovered from members @ minimum of ¼ % of the cost of the flat per annum from each member.
29. Normal recurring repairs are divided among the members equally.
30. Expenses on repairs and maintenance of the lift, including charges for running the lift are not recovered from ground floor flats not using the lifts.
31. Parking charges divided among the members equally.
32. Insurance charges are divided among the members equally.

ANSWERS:

TRUE : 2, 3, 4, 5, 6, 8, 9, 11, 13, 15, 17, 19, 24

FALSE : 1, 7, 10, 12, 14, 16, 18, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32

QUESTIONS:

Q.1) Reserve Fund

ANS: *Section 66(1) and (2)* state that every Society deriving profits, shall transfer 25% of the profit to the Reserve Fund. According to the provision of the Section, the registrar may fix the contribution not less than 10% in some cases of any society having regards to its financial position. Rule No. 54 deals with the utilisation and investment of Reserve Fund. According to the rule, if the society’s fund is equal to or more than its paid up capital, the society can utilise the excess amount in the business, with the approval of Registrar. Interest received on investment of Reserve Fund shall be capitalised (added to the Reserve Fund) as per standard accounting conventions.

Thus, the Reserve Fund of the society shall comprise of –

(a) The amounts carried to the said fund, from year to year, out of the net profit of the year, subject to the provisions of Section 66 (1) and (2) of the Act;

(b) All entrance fees received by the society from its members;

(c) All transfer fees received by the society from its members on transfer of shares, along with the occupancy rights;
(d) All premium received by society from its members on transfer of their interest in the capital or property of the society;
(e) All donations received by the society, except those received by it for the specific purpose.

Q.2) Creation of Fund

ANS: The society shall create and establish the following funds by collecting contributions from its members at the rates mentioned hereunder:

(a) The **Repairs and Maintenance Fund**, at the rate fixed at the general body subject to the minimum of 0.75 per cent per annum of the construction cost of each flat, incurred during the construction of the society and certified by the Architect, for meeting expenses of normal recurring repairs of the society building/property.
(b) **Major repairs funds**, as and when required and decided by the general Body at the rate fixed on area basis.
(c) The **Sinking Fund** at the rate decided at the meeting of the general body, subject to the minimum of 0.25 per cent per annum of the construction cost of each flat incurred during the construction of the building of the society and certified by the Architect, excluding the proportionate cost of the land.
(d) To create **Education and Training Fund** from the Members as contribution of Rs.10 per month/per unit or as decided by the General Body.

Q.3) Utilisation of Fund & Investments

ANS: The Society may utilise its fund in the manner indicated below:

(a) The **Reserve Fund** of the society may be utilise for the expenditure on repairs, maintenance and renewals of the society's property.
(b) The **Repairs and Maintenance Fund** may be utilised by the Committee for meeting the expenditure on maintenance of the society's property and repairs and renewals thereof.
(c) On the resolution passed at the meeting of the general. Body of the society, the **Sinking Fund** may be used by the society for reconstruction of its building/buildings or for carrying out such structural addition or alteration to the building/buildings, as in the opinion of the Socity's Architect, would be necessary to strengthen it/ them or for carrying out such heavy repairs as maybe certified by the Architect and on approval of General Body.
(d) The Education & Training Fund shall be utilized as provided under section 24(A) of the Act.
(e) Utilisation of all funds will be with the **prior permission of General Body.**

INVESTMENT OF SURPLUS FUND.

Section 70 as amended vide ***Amendment Act,2013*** *and Rule No.56* prescribe that the surplus funds belonging to the society should be invested or deposited in the following manner:

(1) In a Distinct Central or State Co-operative Bank having been awarded at least "A" Audit Class in the last 3 consecutive years.
(2) In any of the Securities specified in Section 20 of Indian Trust Act,1982.
(3) In Shares, Securities, Bonds or Debentures of any other society with limited liability.

(4) In any other mode permitted by the rules, or by general or special order in that behalf by the Government.

According to Rule No.56 the following additional modes of investments are prescribed.

(1) In the case of Primary societies in the Central Finance Agencies.
(2) In the case of Central Co-operative and Urban Banks, in the State Co-operative Banks.
(3) In the debenture issued by Land Development Bank of in Government Loans.
(4) In immovable property specified by Registrar by general or special order.

Q.4) Maximum cash balance

ANS: *Rule No. 107-C* prescribed the maximum amount of cash allowance to be kept by different kinds of societies. Some of the limits are as follows.

Type of society	Maximum cash Rs.
Sugar Factories	5,000
Consumer Societies	1,000
Dairy Societies	500
Industrial Estates	500
Salary Earners Societies	500
Housing Societies	300

Q.5) MODEL BYE-LAWS

ANS: The provisions relating to Accounts contained in the latest Model Bye Laws of Co-operative Housing Society as amended by Government of Maharashtra vide **Amendment Act, 2013** are summed up below.

(1) Bye Law No. 67 (Composition of the Charges of the Society)
(2) Bye Law No. 68 (Break-up of Service Charges of the Society)
(3) Bye Law No. 69 (Sharing of the Society Charges by the Members)
(4) Bye Law No. 70 (Payment of Society Charges)
(5) Bye Law No. 71 (Review of case in default of payment)
(6) Bye Law No. 72 (Interest on the default Charges)
(7) Bye Law No. 142 (Books, Records and Register)
(8) Bye Law No. 145 (Maximum Cash Balance)
(9) Bye Law No. 146 (Cheque Payment)
(10)Bye Law No. 147 (Final Accounts and Returns)
(11)Bye Law No. 148 (Security)
(12) Bye Law No. 149 (Appropriation of Profits)
(13) Bye Law No. 150 and 151 (Writing off unrecoverable dues)
(14) Bye Law No. 158 (1) (One Time Expenditure on Repairs)
(15) Bye Law No. 160 (Repairs)

CHAPTER: 2 PROFIT PRIOR TO INCORPORATION.

OBJECTIVES QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. Some businessman decide to purchase an existing business of a firm on 1-1-2013 on the basis of its balance sheet on 31-12-2012. For this purpose, the businessman promotes a private limited company which gets a certificate of incorporation on1-10-2013. The firm carries on the business, in the meanwhile, on behalf of the promoters.
   (a) The profit of the business earned from 1-1-2013 to 30-9-2013 is shared by the partners of the firm in their old profit sharing ratio.
   (b) The profit of the business earned from 1-1-2013 to 30-9-2013 is shared by the firm and the new company, equally
   (c) The profit of the business earned from 1-1-2013 to 30-9-2013 is known as "profit prior to incorporation "and belongs to the new limited company
   (d) The profit of the business earned from 1-1-2013 to 30-9-2013 is shared by the directors of the new limited company in the ratio of their shareholdings.

2. Some businessman decide to purchase an existing business of a firm on 1-1-2013 on the Basis of its balance sheet on 31-12-2012. For this purpose, the businessmen promote a public limited company which gets a certificate of incorporation on 1-10-2013 and the certificate to commerce business on 1-12-2013. The firm carries on the business, in the meanwhile, on behalf of the promoters.
   (a) The profit of the business earned from 1-1-2013 to 30-9-2013 is shared by the partners of the firm in their old profit sharing ratio.
   (b) The profit of the business earned from 1-1-2013 to 30-9-2013 is shared by the firm and the new company, equally
   (c) The profit of the business earned from 1-1-2013 to 30-9-2013 is known as "profit prior to incorporation "and belongs to the new limited company
   (d) The profit of the business earned from 1-1-2013 to 30-9-2013 is known as "profit prior to incorporation "and belongs to the new limited company

3. The profit earned after incorporation
   (a) Is deferred revenue income earned by the company
   (b) Is normal revenue profit earned by the company
   (c) Is capital profit
   (d) Belongs to the vendors of the erstwhile business

4. For the purpose of computing profit prior to incorporation,

(a) Gross profit is divided in time ratio
(b) Gross profit is divided in Sales Ratio
(c) Gross profit is assumed to have arisen entirely in the post-incorporation period
(d) Gross profit is assumed to have arisen entirely in the post-incorporation period

5. For the purpose of computing profit prior to incorporation, Gross profit is divided in Sales Ratio
   (a) based on assumption that the amount of Gross profit per month remains the same
   (b) based on assumption that the Gross profit ratio is same during the year
   (c) based on assumption that the amount of sales per month remains the same
   (d) based on assumption that the Net profit ratio is same during the year

6. If the gross profit ratio is changed due to change in sales price, for the purpose of computing profit prior to incorporation
   (a) Gross profit cannot be divided in Sales Ratio
   (b) Gross Profit can be divided in sales ratio
   (c) Gross Profit should be divided in Ratio of Sales prices
   (d) Gross Profit should be divided in Ratio of Cost per unit
7. The gross profit is divided in the ratio of time, for the purpose of computing profit prior to incorporation ,
   (a) if the details regarding stocks are not available
   (b) if the details regarding cost per unit are not available
   (c) if the details regarding sales are not available
   (d) if the details regarding purchase are not available
8. if the details regarding sales are not available
   (a) the gross profit ratio is divided in the ratio of opening and closing stocks, for the purpose of computing profit prior to incorporation
   (b) the gross profit ratio is divided in the ratio of purchase, for the purpose of computing profit prior to incorporation
   (c) the gross profit ratio is divided in the ratio of direct wages, for the purpose of computing profit prior to incorporation
   (d) the gross profit ratio is divided in the ratio of time, for the purpose of computing profit prior to incorporation
9. For computing pre-incorporation profits, Interest to vendor on purchase consideration
   (a) is treated as pre-incorporation expenditure
   (b) is treated as post-incorporation expenditure
   (c) is allocated in sales ratio
   (d) none of the above
10. For computing pre-incorporation profits, fees to directors
   (a) is treated as pre-incorporation expenditure
   (b) is treated as post-incorporation expenditure
   (c) is allocated in time ratio
   (d) is allocated in sales ratio

11. For computing pre-incorporation profits, Discount on debentures w/o
    (a) is treated as pre-incorporation expenditure
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is allocated in sales ratio
12. For computing pre-incorporation profits, share issue expenses w/o
    (a) is treated as pre-incorporation expenditure
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is allocated in sales ratio
13. For computing pre-incorporation profits, Share transfer fees Received
    (a) is treated as post-incorporation income
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is treated as pre-incorporation income
14. For computing pre-incorporation profits, Dividend declared on share is
    (a) is treated as post-incorporation income
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is treated as pre-incorporation income
15. For computing pre-incorporation profits, Foreign Outward
    (a) is treated as pre-incorporation expenditure
    (b) is allocated in purchase ratio
    (c) is allocated in time ratio
    (d) is allocated in sales ratio
16. For computing pre-incorporation profits, Depreciation
    (a) is treated as pre-incorporation expenditure
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is allocated in sales ratio
17. For computing pre-incorporation profits, Audit Fees
    (a) is treated as pre-incorporation expenditure
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is allocated in sales ratio
18. For computing pre-incorporation profits, income-tax
    (a) is treated as pre-incorporation expenditure
    (b) is treated as post-incorporation expenditure
    (c) is allocated in time ratio
    (d) is allocated in ratio of taxable income/ profit
19. A company was incorporated on 1.4.2013 to take over a business from 1.1.2013. Rent was paid @ Rs.9,000 p.a. till 30.6.2013 and at the rate of Rs.12,000 p.a. till 31.12.2013. Books of accounts are closed on 31.12.2013. Allocation of rent between Pre and Post incorporation periods.
    (a) 2,250 : 9,000
    (b) 3,000 : 9,000
    (c) 2,250 : 8250
    (d) 3,000 : 8,250

20. A company earned a net profit of Rs. 45,000 after debiting all expenses of Rs. 75,000. The sales ratio of Pre- incorporation and Post-incorporation periods is 2:3. Find out the allocation of Gross Profit amount in pre & post incorporation periods.

(a) 18,000 : 27,000	(b) 48,000 : 72,000
(c) 12,000 : 18,000	(d) 30,000 : 45,000

21. Kid Craft Ltd. acquired the business of a firm w.e.f. 1.4.2012. The company was registered on 1.8.2012. It received certificate of commencement of business on 1.12.2012. Its monthly sales doubled from the date of incorporation. Its monthly sales from the date of certificate of commencement of business were three times the monthly sales of pre incorporation period. Find out the sales ratio for pre and post incorporation periods for the year ended 31st March 2013.

(a) 1 : 2	(b) 1 : 1
(c) 1 : 5	(d) 1 : 8

22. D.P. Ltd. took over the business of a firm from 1st March 2012. It closed its books of account for the first time on 31st March 2013. The time ratio for pre and post incorporation period was 5 : 8. Find out the date of incorporation of D.P. Ltd.

(a) 1.5.2012	(b) 1.3.2012
(c) 1.8.2012	(d) 1.12.2012

23. For computing pre-incorporation profits, Salary to vendor is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
24. For computing pre-incorporation profits, Salary to director is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
25. For computing pre-incorporation profits, Interest on debenture is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
26. For computing pre-incorporation profits, Fixed expenses are
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
27. For computing pre-incorporation profits, Variable expenses are
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure

(c) Allocated in time ratio
(d) Allocated in sales ratio

28. For computing pre-incorporation profits, Insurance is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
29. For computing pre-incorporation profits, Postage
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
30. For computing pre-incorporation profits, Discount Allowed is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
31. For computing pre-incorporation profits, Sale commission is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
32. For computing pre-incorporation profits, Appropriation by company is
    (a) Treated as pre-incorporation expenditure
    (b) Treated as post-incorporation expenditure
    (c) Allocated in time ratio
    (d) Allocated in sales ratio
33. Profit prior to incorporation are available for
    (a) Payment of dividend (b) Payment of interest on debenture
    (c) Payment to cost of fixed asset (d) None of the above
34. Profit prior to incorporation should be transferred to
    (a) Profit and loss a/c (b) Capital Reserve
    (c) General Reserve (d) None of the above
35. Preliminary expenses written off should be charged to
    (a) Pre-incorporation Profit (b) Post-incorporation Profit
    (c) Trading Account (d) None of the above

CHECK YOUR ANSWERS

1. (c)	6. (a)	11. (b)	16. (c)	21. (c)	26. (c)	31. (d)
2. (c)	7. (c)	12. (b)	17. (c)	22. (c)	27. (d)	32. (b)
3. (b)	8. (d)	13. (a)	18. (d)	23. (a)	28. (c)	33. (d)
4. (b)	9. (a)	14. (b)	19. (c)	24. (b)	29. (c)	34. (b)
5. (b)	10. (b)	15. (d)	20. (b)	25. (b)	30. (d)	35. (b)

STATE WHETHER TRUE OR FALSE

1. Profits prior to incorporation are not available for dividend and must be transferred to capital reserve.
2. For calculating the profit or loss prior to incorporation, date of commencement of business is the relevant date in case of a public limited company.
3. Preliminary expenses must be apportioned on time basis to the pre-incorporation and post-incorporation periods.
4. The profit made on acquisition of business is credited to General Reserve.
5. For ascertaining pre-incorporation profits, administration expenses are apportioned in the Sales Ratio.
6. Profit after Incorporation are capital profit.
7. If sales is not given, gross profit should be allocated in the equally.
8. Time ratio is ratio of number of months before and after incorporation.
9. Profit prior to incorporation is transferred to profit and loss accounts.
10. Profit after incorporation is transferred to profit and loss account.
11. Interest of vendor is allocated in the ratio time.
12. Preliminary expenses are allocated on the basis of sales.
13. Advertisement expenses are allocated on the basis of sales ratio.
14. Depreciation are allocated in the ratio of time.
15. The date of obtaining Certificate to Commerce Business, is taken as the dividing point, for computing pre-incorporation profits, in case of public limited company.
16. The accounting problem of ascertaining profits prior incorporation arises in the context of business acquisition.
17. Profits earned by a company prior to its incorporation cannot be considered to have been earned in the ordinary course of business.
18. Profits prior to incorporation are available for distribution in the form of dividends.
19. Profits prior to incorporation should be transferred to capital reserve.
20. Loss prior to incorporation is charged to profit and loss account.

ANSWERS :

TRUE : 1 , 8, 10, 12, 13, 14, 16, 17, 19

FALSE : 2, 3, 4, 5, 6, 7, 9, 11, 15, 18, 20 .

QUESTIONS:

Q.1) What is Pre-acquisition Profit

ANS: Suppose, some businessmen decide to purchase an existing business of a firm on 1.1.2013 on the basis of its balance sheet on 31.12.2012. For this purpose, the businessmen promote a limited company which actually gets a certificate of incorporation on 1.10.2013. The firm carries on the business, in the meanwhile, on behalf of the promoters. From 1.10.2013, the same business continued by the company in its own name. The company adopts the agreement between the promoters and the firm for purchasing the business. On basis of this agreement, the profit of the business right from the date of agreement i.e. 1.1.2013 now belongs to the company. The profit of the business earned from 1.1.2013 to 30.9.2013 is known as "profit prior to incorporation". The profit earned after incorporation, i.e. from 1.10.2013 to 31.12.2013 is normal profit earned by the company The profit earned before the incorporation is taken as the dividing point for ascertaining the period before incorporation and the period after incorporation.

Q.2) What is basis for allocation of expenses.

ANS: Refer to theory notes.

Q-3) How to calculate time ratio & sales ratio

ANS: Refer to theory notes.

CHAPTER: 3 VALUATION OF GOODWILL AND SHARES.

OBJECTIVE QUESTIONS:

MULTIPLE CHOICE QUESTIONS:

1. Monetary value of the reputation, connections and profit-earning capacity a firm.
   (a) Trademark (b) Goodwill
   (c) Super Profits (d) Brand-name
2. Money value of the reputation of a concern measured in terms of its future earning capacity.
   (a) Trademark (b) Brand value
   (c) Goodwill (d) Economic value
3. An asset which is not fictitious but intangible in nature, having realisable value.
   (a) Machinery (b) Building
   (c) Vehicle (d) Goodwill
4. Extra amount over and above the saleable values of the identifiable assets that could be fetched by selling an existing firm as a going concern.
   (a) Goodwill (b) Super Profit
   (c) Revaluation Surplus (d) Bonus
5. Amount of capital used by business concern to run its business activities.
   (a) Capital Employed (b) Share Capital
   (c) Paid-up Capital (d) Authorised Capital
6. Rate of profit estimated or expected on capital employed.
   (a) Super Profit (b) Average profit
   (c) Normal Rate of return (d) None of the above
7. A rate of return normally expected by the shareholders on their investment.
   (a) Super Profit (b) Normal Rate of Return
   (c) Dividends (d) Bonus Dividend
8. Excess of average profit earned by the firm over and above its normal profit.
   (a) Bumper Profit (b) Super Profit
   (c) Normal Returns (d) Excess Profit
9. Goodwill is
   (a) A tangible asset (b) An Intangible asset
   (c) A fictitious asset
10. Which of the following statement is true for Goodwill?
    (a) Goodwill exists continually with existence of successful business and identified on transfer of ownership in business
    (b) Goodwill exists only on admission / retirement of a partner
    (c) Goodwill exists only on transfer of ownership of business
    (d) There is nothing like goodwill being non-physical
11. Precise value of goodwill is known only
    (a) by average profit method

(b) by super profit method
(c) when business is sold as a whole by negotiation
(d) by annuity method

12. Following are the factors affecting goodwill except
    (a) Nature of business
    (b) Efficiency of management
    (c) Technical know-how
    (d) Location of the customer
13. Valuation of goodwill by certain number of years' purchase of simple average profit of goodwill means
    (a) Current year's profit X number of years for which goodwill is purchased
    (b) Last years' profit X number of years for which goodwill is purchased
    (c) Average profit X number of years for which goodwill is purchased
    (d) None of the above
14. Goodwill is
    (a) Excess of sales value of business over net asset of firm
    (b) Double the average profit of last three years
    (c) Of no value being fictitious
    (d) Not an asset as it is not purchased and non-physical
15. Which of the following statement is true for goodwill?
    (a) Goodwill is fictitious asset
    (b) Goodwill is intangible asset separable from business
    (c) Goodwill is non-physical asset inseparable from business
    (d) Goodwill is intangible asset with no realisable value
16. According to capitalisation of average profits method for goodwill valuation means
    (a) Capital employed in business- Capitalised profit
    (b) Capitalised average profit- Capital employed in business
    (c) Capitalised profit X- Number of years for which goodwill is purchased
    (d) None of the above
17. Valuation of goodwill by certain number of years' of purchase of super profit method implies
    (a) (Weighted average profit – Simple Average profit) x Number of year of purchase of Goodwill
    (b) (Average profit – Expected profit) x Number of year of purchase of Goodwill
    (c) (Expected profit – Average profit) x Number of year of purchase of Goodwill
    (d) None of the above
18. The most important element in valuation of goodwill is
    (a) Type of business
    (b) Efficiency of owner of business
    (c) Future maintainable profit
    (d) Place and location of business
19. Following factors affect the valuation of goodwill
    (a) Numbers of years for which business is in existence
    (b) Skill and efficiency of the owner of business
    (c) Some special benefit which helps in earning super profits
    (d) All of the above
20. For valuation of goodwill by capitalisation method, the formula for goodwill calculation is
    (a) No. of years purchased multiplied with average profit

(b) No. of years purchased multiplied with super profit
(c) Summation of the discounted value of expected future benefits
(d) Super profit divided with expected rate of return

CHECK YOUR ANSWERS

1. (b)	**6. (c)**	**11. (c)**	**16. (b)**
2. (c)	**7. (b)**	**12. (d)**	**17. (b)**
3. (d)	**8. (b)**	**13. (c)**	**18. (c)**
4. (a)	**9. (b)**	**14. (a)**	**19. (d)**
5. (a)	**10. (a)**	**15. (c)**	**20. (d)**

QUESTIONS:

Q.1) Explain methods of Goodwill Valuation ?
ANS: Refer to theory notes.

Q.2) Explain methods of Share Valuation ?
ANS: Refer to theory notes.

CHAPTER: 4 FOREIGN CURRENCY TRANSACTIONS (AS 11)

OBJECTIVES QUESTIONS

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is false?
   (a) AS 11 should be applied in accounting for transaction in foreign currencies
   (b) AS 11 deals with accounting for foreign currency transaction in the nature of forward exchange contracts
   (c) AS 11 specifies the currency in which an enterprise should present its financial statement
   (d) The principle issues in accounting for foreign currency transactions are to decided which exchange rate to use and how to recognised in the financial statements the financial effect of changes in exchange rates.
2. Average rate
   (a) is the exchange rate at the balance sheet date
   (b) is the mean of the exchange of two currencies
   (c) is the ratio for exchange of two currencies
   (d) is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction
3. Closing rate
   (a) is the exchange rate at the balance sheet date
   (b) is the mean of the exchange of two currencies
   (c) is the ratio for exchange of two currencies
   (d) is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction
4. Exchange rate
   (a) is the exchange rate at the balance sheet date
   (b) is the mean of the exchange of two currencies
   (c) is the ratio for exchange of two currencies
   (d) is the rate at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction
5. Currency other than the reporting currency of an enterprise
   (a) Non reporting Currency (b) U.S. Dollars
   (c) Foreign Currency (d) Indian Rupees
6. Currency used in presenting the financial statements
   (a) Reporting currency (b) Non-foreign Currency
   (c) Official currency (d) Indian rupees
7. Money held and asset and liability to be received or paid in fixed or determinable amounts of money
   (a) Current item (b) Non-monetary items

(c) Monetary items (d) Forward Exchange Contract

8. Which of the following is foreign currency transaction.
   i} an enterprises buys or sells goods or services whose price is denominated in a foreign currency
   ii} an enterprises borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency.
   iii} an enterprises becomes a party to an unperformed forward exchange contract
   (a) only (iii) (b) all
   (c) only (i) (d) only (ii)
9. A Foreign currency transaction should be recorded , on initial recognition
   (a) in the reporting currency by applying to the foreign currency the exchange rate between the reporting currency and the foreign currency at the date of the recognition
   (b) in the Indian rupees , by using the exchange rate between the Indian Rupee and U.S Dollars at the date of the transaction
   (c) in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the recognition
   (d) in the reporting currency by applying to the foreign currency amount the average exchange rate between the reporting currency and the foreign currency during the financial year
10. Which of the following statement is false ?
    (a) At each balance sheet date , foreign currency monetary items should be reported using the closing rate
    (b) At each balance sheet date , non-monetary items which are carried items of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the transaction
    (c) At each balance sheet date , non-monetary items which are carried at fair value denominated in a foreign currency should be reported using the exchange rates that the existed when the values were determined
    (d) At each balance sheet date , foreign currency monetary items should be reported using the average rate during the year
11. Following is not an example of a monetary items.
    (a) Cash (b) Receivables
    (c) Payables (d) Fixed assets
12. Following is an example of a non- monetary item.
    (a) Debtors (b) Creditors
    (C) Bank account (d) inventories
13. At each balance sheet date , non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency should be reported
    (a) using the exchange rate at the date of the transaction
    (b) using the exchange rates that the existed when the values were determined
    (c) using the closing exchange rate at the date of the balance sheet
    (d) using the average exchange rate during the financial year
14. At each balances sheet date . Foreign currency monetary items should be reported
    (a) using the exchange rate at the date of the transaction

(B) Using the average of the (i) exchange rate at the date of the transaction and (ii) closing exchange rate

(c) using the closing exchange rate of the date of the balance sheet

(d) using the lowest exchange rate during the financial year.

15. Following exchange differences should be Recognised as income or as expense in the period in which they arise-

    (a) Exchange difference arising on the settlement of monetary items

    (b) Exchange difference arising on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period

    (c) Exchange difference arising on reporting an enterprise's monetary items at rates different from those at which they were previous financial statement

    (d) all of the above.

16. Following Balance should be translated at the closing date

    (a) Non-monetary items valued at historical cost denominated in a foreign currency

    (b) Monetary items

    (c) Non-monetary items which are carried in items of fair value, denominated in a foreign currency.

    (d) All of the above

17. Following Balances should be translated at the exchange rate on the date of the original transaction

    (a) Non-monetary items valued at historical cost denominated in a foreign currency

    (b) Monetary items

    (c) Non-monetary items which are carried in items of fair value, denominated in a foreign currency.

    (d) All of the above

18. Following Balance should be translated at the exchange rate that existed when the values were determined

    (a) Non-monetary items valued at historical cost denominated in a foreign currency

    (b) Monetary items

    (c) Non-monetary items which are carried in items of fair value, denominated in a foreign currency.

    (d) None of the above

19. No exchange difference will arise on

    (a) inventory, fixed asset, investment etc. valued at historical cost denominated in a foreign Currency

    (b) cash, debtors or creditors

    (c) inventory, fixed asset, investment etc. which are carried in terms of fair value, denominated in a foreign currency

    (d) (a) and (c) above

20. The mean of the exchange rates in force during a period is known as

    (a) Average Rate (b) Closing Rate

    (c) Reporting Rate (d) Fair Rate

21. The exchange rate at the balance sheet date is known as

    (a) Average Rate (b) Closing Rate

    (c) Non-monetary Rate (d) Monetary Rate

22. Reporting currency is the currency used

(a) In recording the financial transactions (b) In presenting the financial statements
(c) In setting the financial transactions (d) None of the above

23. Foreign currency is a currency
    (a) Used in recording the foreign transactions
    (b) Used in presenting the foreign financial statements
    (c) Other than the reporting currency of an enterprise
    (d) Other than the Indian Rupee
24. Non-monetary items
    (a) Are the items exchanged at fair value
    (b) Are the items other than assets and liabilities
    (c) Are assets and liabilities other that monetary items
    (d) None of the above
25. Monetary items
    (a) Are assets and liabilities to be received or paid in money
    (b) Are assets to be received in fixed or determinable amounts of money
    (c) Are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.
    (d) None of the above
26. An exchange difference results
    (a) When there is a change in the exchange rate between the transaction date and the date of settlement of any non-monetary items arising from a foreign currency transaction
    (b) When there is a change in the fair value rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction
    (c) When there is a change in the exchange rate between the transaction date and the date of settlement of any monetary items arising from a foreign currency transaction
    (d) None of the above
27. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the
    (a) Balance Sheet (b) Transaction
    (c) Settlement (d) None of the above
28. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the
    (a) Average Rate (b) Closing Rate
    (c) Non-monetary Rate (d) Monetary Rate

CHECK YOUR ANSWERS

1. (c)	5. (c)	9. (c)	13. (b)	17. (a)	21. (b)	25. (c)
2. (b)	6. (a)	10. (d)	14. (c)	18. (c)	22. (b)	26. (c)
3. (a)	7. (c)	11. (d)	15. (d)	19. (d)	23. (c)	27. (b)
4. (c)	8. (b)	12. (d)	16. (b)	20. (a)	24. (c)	28. (b)

STATE WHETHER TRUE OR FALSE

1. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency should be reported using the exchange rate at the date of the balance sheet.
2. Cash, receivables and payables are examples of non-monetary items.
3. Inventories is a non-monetary item.
4. A foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the recording.
5. Average Rate is the mean of the exchange rates on the first day and the last day of the accounting year.
6. Closing rate is the exchange rate at the close of the day on which a transaction takes place.
7. Exchange rate is the rate at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
8. Foreign Currency is a currency other than the Indian rupee.
9. Monetary items are defined by AS 11 as assets and liabilities other than non-monetary items.
10. Reporting Currency means the Indian Rupee used for financial statements of Indian Companies.
11. Reporting currency is the currency used in recording the financial transactions.
12. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at a particular exchange rate.
13. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rate.
14. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at the average exchange rate.
15. Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at the closing exchange rate.
16. A foreign currency transaction arises when an enterprise buys or sells goods or services whose price is denominated in the reporting currency.
17. Non-monetary items which are carried in terms of fair value denominated in a foreign currency should be reported using the exchange rate at the date of the transaction.

ANSWERS

True: 3
False: 1,2,4,5,6,7,8,9,10,11,12,13,14,15,16,17

QUESTIONS:

Q.1. Short Note : AS 11 / How exchange differences are reorded arising on foreign exchange transactions.

Ans : AS 11 – Accounting Standard 11 deals with how changes in Foreign Exchange rates are accounted for. The principal issue in this standard is to decide which exchange rate to use and how to recognize it effects in the financial statements .

The following terms are used in this statement with meanings specified :

a)

CHAPTER: 5 BUY BACK OF EQUITY SHARES

OBJECTIVES

1. Which of the following statement show the position after buy-back of shares?
   (i) There is a reduction in the share capital to the extent of the face value of shares bought back.
   (ii) There is a payment from the company to the extent of the shares paid to the shareholders.
   (iii) The shareholder's whose shares are bought ceases to be the shareholders of the company.
   (a) (i) and (ii) (b) (ii) and (iii)
   (c) All of the above (d) None of the above
2. Which of the following are the main objectives of Buy-back of equity shares?
   (i) To reduce earnings per share per share (ESP)
   (ii) To increase the share capital
   (iii) To bring in additional cash in the business
   (a) (i) and (ii) (b) (ii) and (iii)
   (c) All of the above (d) None of the above
3. Which of the following statement is true?
   (a) Bye-back is governed by S. 77A to 77B of the Companies Act
   (b) Bye-back is governed by S. 80 of the Companies Act
   (c) Bye-back is governed by S. 117C of the Companies Act
   (d) Bye-back is governed by S. 100 to 104 of the Companies Act
4. Which of the following statement is true?
   (a) Redemption of preference share is known as Bye-back
   (b) Repayment of equity share is known as Buy-back
   (c) Redemption of debentures is known as Buy-back
   (d) Purchase of own debentures is known as Buy-back
5. Which of the following statement is true?
   (a) S. 80 states that premium payable on buy-back should be provided out of the profit of the company or out of the company's security premium account
   (b) Companies Act is silent about how premium payable premium payable on buy-back should be provided
   (c) Companies Act states that buy-back cannot be made at premium
   (d) None of the above.
6. Which of the following statement is true?
   (a) Bye-back can be out of free-reserves + security premium
   (b) Bye-back can be only out of free reserves; it cannot be out of securities premium
   (c) Bye-back can be only out of security premium + capital reserves
   (d) None of the above.
7. Which of the following statement is true?
   (a) Bye-back date is not known on the date of issue
   (b) Bye-back date is known on the date of issue

(c) Bye-back date cannot be beyond 10 years from the date of issue
(d) None of the above.

8. Which of the following statement is true?
   (a) the buy-back must be authorized by the memorandum of association of the company
   (b) the buy-back must be authorized by the articles of association of the company
   (c) the buy-back must be authorized by the auditors of the company
   (d) the buy-back must be authorized by the central government
9. Which of the following statement is true?
   (a) the buy-back must be authorized by an ordinary resolution passed in general meeting
   (b) the buy-back must be authorized by a resolution passed unanimously in a board meeting
   (c) the buy-back must be authorized by a resolution passed with the consent of all members present in a general meeting
   (d) the buy-back must be authorized by a special resolution passed in general meeting
10. According to S. 77A, Buy-back should be
    (a) less than twenty-five per cent of the total nominal capital and free reserves of the company
    (b) less than twenty-five per cent of the total issued capital and free reserves of the company
    (c) less than twenty-five per cent of the total paid-up capital and free reserves of the company
    (d) more than twenty-five per cent of the total paid-up capital and free reserves of the company
11. According to S. 77A, Buy-back of equity shares in any financial year
    (a) shall not exceed twenty-five per cent of its total paid-up equity capital and free reserves in that financial year
    (b) shall not exceed twenty-five per cent of its total paid-up equity capital less free reserves in that financial year
    (c) shall not exceed twenty-five per cent of its total paid-up equity capital in that financial year
    (d) shall not be less than twenty-five per cent of its total paid-up equity capital in that financial year
12. According to S. 77A.
    (a) the ratio of the debt owed by the company should not be more than twice the capital and its free reserves after such buy-back
    (b) the ratio of the debt owed by the company should not be more than twice the capital and its free reserves before such buy-back
    (c) the ratio of the capital and its free reserves should not be more than twice the debt owed by the company after such buy-back
    (d) the ratio of the debt owed by the company should not be less than half the capital and its free reserves before such buy-back
13. According to S. 77A, before buy-back, all the shares
    (a) must be fully paid-up
    (b) must be fully issued and subscribed to the extent of the authorized capital
    (c) must be held by the same shareholders for at least for one year
    (d) none of the above
14. According to S. 77A, every buy-back shall be
    (a) completed within twelve months from the date of passing the special resolution
    (b) completed within twelve months from the date of authorization by the Articles of Association

(c) completed within twelve months from the date the shares becoming fully paid-up

(d) completed not before twelve months from the date of passing the special resolution

15. According to S. 77A, the following methods can be adopted for buy-back

    (i) buy-back from the existing security-holders on a proportionate basis

    (ii) buy-back from the open market

    (iii) buy-back from odd lots

    (a) only (i) and (ii) (b) only (i) and (iii)

    (c) only (ii) and (iii) (d) all the above

16. Before making a buy-back, the company shall

    (a) file with the Registrar and the Securities and Exchange Board of India a prospective

    (b) file with the Registrar and the Securities and Exchange Board of India a statement in lieu of prospectus

    (c) file with the Registrar and the Securities and Exchange Board of India a declaration of insolvency

    (d) file with the Registrar and the Securities and Exchange Board of India a declaration of solvency

17. Where a company buys-back its own securities.

    (a) it shall extinguish and physically destroy the securities so bought-back within thirty days of the last date of completion of buy-back

    (b) it shall hold the securities so brought-back in its physical custody for seven years from the last date of completion of buy-back

    (c) it shall re-issue the securities so brought-back within seven days of the last date of completion of buy-back

    (d) it shall extinguish and physically destroy the securities so bought-back within seven days of the last date of completion of buy-back

18. Where a company completes a buy-back of its shares or other specified securities under section77A, it shall not make further issue of the same kind of shares or other specified securities within a period of six months including –

    (a) allotment of further shares under clause (a) of sub-section (1) of section 81

    (b) bonus issue

    (c) conversion of warrants

    (d) conversion of preference shares

19. A company can buy-back

    (a) Equity Shares (b) Preference shares

    (c) Both of the above (d) None of the above

20. Equity shares can be bought-back

    (a) out of profits only

    (b) out of proceeds of fresh issue only

    (c) out of capital profit only

    (d) its free reserves; or the securities premium account; or the proceeds of shares.

21. If equity shares have been brought back out of free-reserves, amount equal to the face value of equity shares brought back should be transferred to

    (a) Development Rebate Reserve (b) General Reserve

    (c) Sinking Fund (d) Capital Redemption Reserve

22. On buy-back of shares
    (a) There is a reduction in the share capital to the extent of the face value of the shares bought back.
    (b) There is a payment from the company to the extent of the price of the shares paid to the shareholders
    (c) The shareholders whose shares are bought ceases to be the shareholders of the company.
    (d) All of the above
23. A company may purchase its own shares out of-
    (a) its free reserves only (b) The securities premium account only
    (c) The proceeds of any share only (d) any or all of the above
24. Which of the following is not a ‘free reserve’ for the purpose of buy-back of shares
    (a) Profit or loss account (b) General Reserve
    (c) Dividend Equalisation Reserve (d) Revaluation reserve
25. Which of the following is a ‘free reserve’ for the purpose of buy-back of shares
    (a) Workmen’s Compensation fund (after meeting liabilities)
    (b) Capital Redemption Reserve balance b/d
    (c) Debenture Redemption Reserve
    (d) Shares Forfeited Account
26. No company shall purchase its own shares unless the buy-back is of less than 25% of the
    (a) Total paid-up capital of the company
    (b) Total paid-up capital and reserve of the company
    (c) Total paid-up capital and free reserves of the company
    (d) Total nominal capital and free reserves of the company
27. Buy-back of equity shares in any financial year shall not exceed 25% of its
    (a) Total paid-up equity capital in that financial year
    (b) Total paid-up capital
    (c) Total paid-up equity capital and free reserves of the company
    (d) Total nominal capital and free reserves of the company
28. On buy-back of shares, there is a reduction in the share capital to the extent of the
    (a) Market value of the shares bought back
    (b) Face value of the shares bought back
    (c) Called-up value of the shares bought back
    (d) Un-paid value of the shares bought back
29. A buy-back of 10% of the total paid-up equity capital and reserves of the company
    (a) can be authorized by the Shareholders, but no special resolution need to be passed for the same
    (b) can be authorized by the Board, but a special resolution need to be passed in a general meeting to ratify the same
    (c) can be authorized by the Board, but a special resolution with need be passed unanimously by all members present to ratify the same
    (d) can be authorized by the Board, and no special resolution need to be passed in a general meeting
30. The buy-back of equity shares in any financial year shall not exceed twenty-five per cent of its total

(a) Authorized capital in that financial year
(b) Paid-up equity capital in that financial year
(c) Paid-up capital and free reserve in that financial year
(d) called-up capital in that financial year

31. The Micro Corporation Ltd. is authorized to issue 1,00,000 shares of equity shares. It had issued 30,000 shares. It has bought back 50,000 shares. As a result of these transactions. The no. of shares (i) in authorized share capital and (ii) in issued share capital will be
(a) 1,00,000 : 25,000 (b) 75,000 : 25,000
(c) 1,00,000 : 30,000 (d) 75,000 : 30,000

CHECK YOUR ANSWERS

1. (c)	**6. (a)**	**11. (c)**	**16. (d)**	**21. (d)**	**26. (c)**	**31. (a)**
2. (d)	**7. (a)**	**12. (a)**	**17. (d)**	**22. (d)**	**27. (a)**	
3. (a)	**8. (b)**	**13. (a)**	**18. (a)**	**23. (d)**	**28. (b)**	
4. (b)	**9. (d)**	**14. (a)**	**19. (c)**	**24. (d)**	**29. (d)**	
5. (b)	**10. (c)**	**15. (d)**	**20. (d)**	**25. (a)**	**30. (b)**	

STATE WHETHER TRUE OR FALSE

1. The buy-back of shares has to be authorized by article of association.
2. After buy-back of shares, the debt-equity ratio should not exceed 2:1.
3. Buy-back of shares is just the opposite of raising capital through the issue of shares.
4. Buy-back of shares decrease the Earning Per Share (EPS) of the company.
5. Buy-back has to be completed within 10 months from the date of passing the special resolution.
6. On Buy-back of shares by the company, there is reduction in the share capital.
7. On Buy-back of shares by the company, there is reduction in the share capital to the extent
8. Buy-back of Equity shares can be made out of the proceeds of an earlier issue of Preference shares.
9. No company shall purchase its own shares unless the ratio of the debt owed by the company is equal to the capital and its free reserves after such buy-back.
10. Only fully paid shares can be bought back.
11. A company cannot buy-back the shares issued to employees of the company under a scheme of stock option.
12. Equity shares can be bought back out of security premium account balance.
13. If equity shares have been bought back out of security premium, there is no need to make any transfer to Capital Redemption Reserve.
14. Equity shares can be bought back only out of the proceeds of subsequent fresh issue of preference shares.

15. Capital Redemption Reserve account can be utilized for issuing partly paid bonus shares.
16. Where a company complete a buy-back of its shares, it shall not make a rights issue of the same kind of shares within a period of six months.
17. Where a company completes a buy-back of its shares, it can make a bonus issue of the same kind of shares even within a period of six months.
18. If any actual profit realized in cash on sale of fixed assets or investment is directly credited to Capital Reserve, it is taken as free reserves.

ANSWERS:

TRUE: 1, 2, 3, 6, 8, 10, 12, 16, 17, 18.
FALSE: 4, 5, 7, 9, 11, 13, 14, and 15.