OBJECTIVES (19-20)
FINANCIAL ACCOUNTING (SEM VI)

Chapter 1 : Amalgamation, Absorption and External Reconstruction (AS – 14)

Q1) Multiple Choice Questions

1. Companies may combine in following ways (i) absorption (ii) amalgamation (iii) external reconstruction (iv) internal reconstruction (v) merger
- **a)** any of above
- **b)** none of above
- **c)** any except (iv)
- **d)** any except (v)

2. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited
- **a)** it is called absorption
- **b)** it is called amalgamation
- **c)** it is called external reconstruction
- **d)** it is called internal reconstruction

3. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited
- **a)** ABC Ltd. and DEF Ltd. are known as the "Vendor Companies"
- **b)** ABC Ltd. and XYZ Ltd. are known as the "Vendor Companies"
- **c)** XYZ Ltd. and DEF Ltd. are known as the "Vendor Companies"
- **d)** XYZ Ltd. is known as the "Vendor Company'

4. If the ABC Limited and DEF Limited are taken over by a new company XYZ Limited
- **a)** ABC Ltd. and DEF Ltd. are known as the "Purchasing Companies"
- **b)** ABC Ltd. and XYZ Ltd. are known as the "Purchasing Companies"
- **c)** XYZ Ltd. and DEF Ltd. are known as the "Purchasing Companies"
- **d)** XYZ Ltd. is known as the "Purchasing Company"

5. If the business of an existing company ABC Limited is taken over by an existing company PQR Limited, it is called
- **a)** external reconstruction
- **b)** internal reconstruction
- **c)** absorption
- **d)** amalgamation

6. If the business of an existing company ABC Limited is taken over by an existing company PQR Limited,
- **a)** ABC Ltd. is known as the "Vendor Company"; and POR Ltd. is known as the "Purchasing Company"
- **b)** ABC Ltd. and PQR Ltd. are known as the "Purchasing Companies"
- **c)** PQR Ltd. is known as the "Vendor Company"; and ABC Ltd. is known as the "Purchasing Company"
- **d)** ABC Ltd. and PQR Ltd. are known as the "Vendor Companies"

7. If the business of ABC Limited, a loss-making company, is taken over by a new company ABC (New) Limited, it is called
- **a)** internal reconstruction

b) absorption
c) external reconstruction
d) amalgamation

8. If the business of ABC Limited, a loss-making company, is taken over by a new company ABC (New) Limited,
   a) ABC Ltd. is known as the "Vendor Company"; and ABC (New) Ltd. is known as the "Purchasing Company"
   b) ABC Ltd. and ABC (New) Ltd. are known as the "Purchasing Companies"
   c) ABC (New) Ltd. is known as the "Vendor Company"; and ABC Ltd. is known as the "Purchasing Company"
   d) ABC Ltd. and ABC (New) Ltd. are known as the "Vendor Companies"

9. When the merger involves liquidation of two existing companies and formation of one new company, it is called
   a) internal reconstruction
   b) absorption
   c) external reconstruction
   d) amalgamation

10. When the merger involves liquidation of one or more existing companies and formation of no new company, it is called
   a) internal reconstruction
   b) absorption
   c) external reconstruction
   d) amalgamation

11. When the merger involves liquidation of one existing sick company and formation of one new company, it is called
   a) internal reconstruction
   b) absorption
   c) external reconstruction
   d) amalgamation

12. A feature which is common in all cases of merger viz. absorption, amalgamation and external reconstruction is
   a) purchase of one company by another company
   b) liquidation of at least two companies
   c) formation of at least one new company
   d) liquidation at least one existing company and formation of at least one new company

13. Under the Companies Act, 1956.
   a) Absorption' includes 'amalgamation'
   b) amalgamation includes 'absorption'
   c) amalgamation excludes 'absorption'
   d) internal reconstruction' includes "external reconstruction"

14. Accounting for amalgamation is governed by
   a) Accounting Standard 1
   b) Accounting Standard 13
   c) Accounting Standard 14
   d) Accounting Standard 11

15. Accounting for absorption is governed by
   a) Accounting Standard 1
   b) Accounting Standard 13
   c) Accounting Standard 14
   d) Accounting Standard 11

16. Accounting for amalgamation by way of purchase is governed by
   a) Accounting Standard 1
   b) Accounting Standard 13
   c) Accounting Standard 14
   d) None of the above

17. Accounting for amalgamation by way of merger is governed by
   a) Accounting Standard 1
   b) Accounting Standard 13
   c) Accounting Standard 14
   d) None of the above

18. According to AS 14, Transferor Company means the Company
   a) which is amalgamated into

another Company
b) into which a Company is amalgamated
c) which is newly formed
d) none of the above

19. According to AS 14, Transferee Company means the Company
- **a)** which is amalgamated into another Company
- **b)** into which a Company is amalgamated
- **c)** which is liquidated
- **d)** none of the above

20. According to AS 14, Amalgamations fall into two categories
- **a)** amalgamation and absorption
- **b)** merger and purchase
- **c)** amalgamation and reconstruction
- **d)** external reconstruction and internal reconstruction

21. On amalgamation, Preliminary Expenses A/c appearing on Assets side of the balance sheet of the vendor company
- **a)** is closed by debit to Realization A/c
- **b)** is closed by debit to Equity Shareholders A/c
- **c)** is closed by debit to Profit & Loss A/c
- **d)** is closed by credit to Equity Shareholders

22. On amalgamation, Profit & Loss A/c (Dr.) balance of the vendor company
- **a)** is closed by debit to Realization A/c
- **b)** is closed by debit to Equity Shareholders A/c
- **c)** is closed by credit to Equity Shareholders A/c
- **d)** is closed by credit to Realization A/c

23. On amalgamation, Debenture A/c appearing in the balance sheet of the vendor company
- **a)** is closed by credit to Purchasing Company A/c, if debentures are taken over by the purchasing company
- **b)** is closed by credit to Realization A/c, whether debentures are taken over by the new company or not
- **c)** is closed by credit to Debenture holders A/c, if debentures are not taken over by the new company
- **d)** is closed by debit to Realization A/c, whether debentures are taken over by the new company or not

24. On amalgamation, Provident Fund A/c appearing on the Liabilities side in the balance sheet of the vendor company
- **a)** is closed by credit to Purchasing Company A/c
- **b)** is closed by credit to Realization A/c
- **c)** is closed by credit to Equity Shareholders A/c
- **d)** is closed by debit to Realization A/c

25. On amalgamation, Sinking Fund A/c appearing on the Liabilities side in the balance sheet of the vendor company
- **a)** is closed by credit to Purchasing Company A/c
- **b)** is closed by credit to Realization A/c
- **c)** is closed by credit to Equity Shareholders A/c
- **d)** is closed by debit to Realization A/c

26. On amalgamation, if the dissolution expenses are paid as well as borne by the purchasing company
- **a)** Entries are passed in the books of the purchasing as well as the vendor company

- **b)** no entry is passed in the books of the vendor company
- **c)** no entry is passed in the books of the purchasing company
- **d)** no entry is passed in the books of the purchasing as well as the vendor company

27. On amalgamation, if pref. shares are settled at a premium

- **a)** the premium is credited to Realization A/c
- **b)** the premium is debited to Realization A/c
- **c)** the premium is credited to Security Premium A/c
- **d)** premium is debited to Capital Reserve A/c

28. On amalgamation, accounting procedure used by the vendor company

- **a)** is the same in all types of amalgamation
- **b)** is different depending upon whether the amalgamation is in the nature of a merger or a purchase as defined by Accounting Standard 14
- **c)** is different depending upon whether the companies are private or public
- **d)** is different depending upon the amount of purchase consideration

29. On amalgamation, accounting procedure used by the purchasing company

- **a)** is the same in all types of amalgamation
- **b)** is different depending upon whether the amalgamation is in the nature of a merger or a purchase as defined by Accounting Standard 14
- **c)** is different depending upon whether the companies are private or public
- **d)** is different depending upon the amount of purchase consideration

30. All the assets and liabilities of the vendor company become the assets and liabilities of the purchasing company

- **a)** if the amalgamation is in the nature of merger as defined under AS 14
- **b)** if the amalgamation is in the nature of absorption as defined under the Companies Act
- **c)** if the amalgamation is in the nature of external reconstruction as defined under the Companies Act
- **d)** if the amalgamation is in the nature of purchase as defined under AS 14

31. Shareholders holding not less than 90% of the face value of the equity share capital in the vendor company become equity shareholders in the purchasing company

- **a)** if the amalgamation is in the nature of merger as defined under AS 14
- **b)** if the purchase consideration is calculated under payment method
- **c)** if the amalgamation is in the nature of external reconstruction as defined under the Companies Act
- **d)** if the amalgamation is in the nature of purchase as defined under AS 14

32. The assets and liabilities of the vendor company are incorporated in the accounts of the purchasing company at book values

- **a)** if the amalgamation is in the nature of merger as defined under AS 14
- **b)** if the amalgamation is in the nature of purchase as defined

under AS 14

c) if the purchase consideration is calculated under Net Assets method

d) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

33. In the books of the purchasing company, the assets and liabilities of the vendor company are incorporated on the basis of their agreed values (i.e. either the book values or the fair values)

a) if the amalgamation is in the nature of merger as defined under AS 14

b) if the amalgamation is in the nature of purchase as defined under AS 14

c) if the purchase consideration is calculated under Net Assets method

d) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

34. The difference between the purchase consideration and the net assets of the vendor company, if any, is either debited to the Goodwill Account or credited to the Capital Reserve Account

a) if the amalgamation is in the nature of merger as defined under AS 14

b) if the amalgamation is in the nature of purchase as defined under AS 14

c) if the purchase consideration is calculated under Net Assets method

d) if the amalgamation is in the nature of external reconstruction as defined under the Companies Act

35. Under purchase method of amalgamation, the reserves of the vendor Company

a) are not brought in the books of the purchasing company

b) (except a statutory reserve) are not brought in the books of the purchasing company

c) are brought in the books of the purchasing company

d) (except a statutory reserve) are brought in the books of the purchasing company

36. Amalgamation Adjustment Account

a) should be shown as a Fixed Asset in the balance sheet of the purchasing company

b) should be shown as a Fictitious Asset in the balance sheet of the vendor company

c) should be shown under Reserves and Surplus in the balance sheet of the purchasing company

d) should be shown as a Fictitious Asset in the balance sheet of the purchasing company

37. The amounts paid by the purchasing company to discharge the debentures are

a) ignored while calculating purchase consideration by net payment method

b) ignored while calculating purchase consideration by net asset method

c) considered while calculating purchase consideration by net payment method

38. The amounts paid by the purchasing company to discharge the contingent liabilities are

a) ignored while calculating purchase consideration by net payment method

b) ignored while calculating purchase consideration by net asset method

c) considered while calculating purchase consideration by net payment method

39. The amounts paid by the purchasing company to meet the expenses of winding up are

a) ignored while calculating purchase consideration by net payment method

b) ignored while calculating purchase consideration by net asset method

c) considered while calculating purchase consideration by net payment method

40. The agreed values at which the assets or liabilities are taken over by the purchasing company are

a) ignored while calculating purchase consideration by net payment method

b) ignored while calculating purchase consideration by net asset method

c) considered while calculating purchase consideration by net payment method

41. The value of assets or liabilities not taken over by the purchasing company is

a) ignored while calculating purchase consideration by net payment method

b) ignored while calculating purchase consideration by net asset method

c) considered while calculating purchase consideration by net asset method

42. The Unamortized Expenditure not written off is

a) ignored while calculating purchase consideration by net payment method

b) ignored while calculating purchase consideration by net asset method

c) considered while calculating purchase consideration by net asset method

43. Liquidation expenses of Vendor Co. agreed to be paid / re-imbursed by the Purchasing Co., should be

a) considered while calculating purchase consideration by net payment method

b) considered while calculating purchase consideration by net asset method

c) ignored while calculating the purchase consideration (whether under net payments method or net assets method).

44. As per AS-14 purchase consideration is what is payable to

a) Shareholders

b) Shareholders and debenture holders

c) Shareholders and creditors

d) None of the above

45. When amalgamation is in the nature of merger, the accounting method to be followed is :

a) Equity method

b) Purchase method

c) Pooling of interests method

d) None of the above

46. Amalgamation adjustment account is opened in the books of transferee company to incorporate

a) The assets of the transferor company

b) The liabilities of the transferor company

c) The statutory reserves of the transferor company

d) None of the above

47. Under the 'Purchase method of accounting' , the transferee company incorporates in its books:

a) Only the assets and liabilities of the transferor company

b) Only the assets, liabilities and statutory reserves of the transferor company

c) Only the assets, liabilities and reserves of the transferor company.

d) None of the above

48. Goodwill arising on amalgamation is to be

a) Retained in the books of the transferee company.

b) Amortized to income on a Systematic basis

c) Adjusted against reserves and profit and loss account of the transferee company immediately.

d) None of the above

49. Under the pooling of interests method the difference between the purchase consideration and share capital of transferee company should be adjusted to :

a) General reserve

b) Amalgamation adjustment A/c

c) Goodwill or capital reserve

d) None of the above

50. At the time of amalgamation, purchase consideration does not include

a) The sum which the transferee company will directly pay to the creditors of the transferor company.

b) Payments made in the form of assets by the transferee company to the shareholders of the transferor company.

c) Preference shares issued by the transferee company to the preference shareholders of the transferor company.

d) Preference shares issued by the transferee company to the equity shareholders of the transferor company.

51. The asset which is not taken under Net assets method of calculating purchase consideration is

a) Loose Tools

b) Bills Receivables

c) Machinery

d) Share issue Expenses

52. 'Pooling of interest' is a method of

a) Charging Depreciation

b) Accounting for Amalgamation

c) Calculation of Purchase Consideration

d) None of the above

53. In which of the following methods, the purchase consideration is calculated on the basis of the agreed value of the shares of the transferor company?

a) Net Asset Method

b) Net Payment Method

c) Intrinsic Value Method

d) None of the above

54. Adjustment entry passed to eliminate the inter-company bills of exchange is

a) Debit bills payable a/c credit bills receivable a/c

b) Debit bills receivable a/c credit bills payable a/c

c) Debit amalgamation adjustment a/c, credit statutory reserve a/c

d) None of the above

55. Under 'Purchase method', any excess of the amount of purchase consideration over the net acquired assets of the transferor company should be recognized as;

a) Capital Reserve

b) Goodwill

c) Profit & Loss A/c

d) None of the above

56. If there is a provision (RDD) against the debtors, such debtors are transferred to the Realization a/c at

a) Net Amount i.e. Debtors less RDD

b) Current Market Value

c) Gross Amount of Debtors

d) None of the above

57. Under payments method, purchase

consideration for the amalgamation means

a) Aggregate of shares and cash to shareholders

b) Aggregate of shares, cash and payment to debenture holders

c) Shares, cash, payment to debenture holders and expenses of realization

d) None of the above

58. Loss or profit on realization a/c is transferred by the transferor company, under amalgamation to

a) Preference shareholders a/c

b) Equity shareholders a/c

c) Profit & loss appropriation a/c

d) None of the above

59. Intrinsic value of each equity share of the transferor company is ₹ 250 and that of the transferee company is ₹ 400. The ratio of exchange of shares on the basis of intrinsic value is

a) 2 : 1

b) 8 : 8

c) 8 : 5

d) None of the above

Q2) FILL IN THE BLANKS

1. In ______a new company is formed to take over the business of two or more old companies.
2. In amalgamation, the old Companies taken over are known as the "_____ Companies", and the new company taking over is known as the "_____ Company".
3. If the business of an existing company ABC Limited is taken over by another existing company PQR Limited, it is called ________.
4. If the business of ABC Limited, a loss-making company, is taken over by a new company ABC (New) Limited, it is called _________ reconstruction.
5. Under AS 14, Purchase Consideration (would/would not) include payments made by the purchasing Co. to discharge the debentures of the vendor Co.
6. Under AS 14, Purchase Consideration (would/would not) include payments made by the purchasing company to meet the liquidation expenses of the vendor company.
7. In amalgamation, if the liquidation expenses are paid as well as borne by the purchasing company (an/no) entry is passed in the books of the vendor Co.
8. AS 14 recommends that Goodwill arising on amalgamation should be written off within _______years.
9. The Amalgamation Adjustment Account should be shown as a ______ Asset in the balance sheet of the purchasing company.
10. If Purchase Consideration is ascertained under the Net Assets method, this (will/will not) give rise to Goodwill or Capital Reserve.
11. Dissolution expenses paid & borne by purchasing company are debited in its books to _______Account.
12. In merger, Shareholders holding not less than_______% of the face value of the equity share capital in the vendor company become equity shareholders in the purchasing company.
13. In merger, the purchase consideration due to the equity shareholders of the vendor company is discharged by the purchasing company wholly by way of issue of ______ (equity/preference) shares.
14. An amalgamation in the nature of merger is brought about if shareholders holding________% of the face value of equity shares become equity shareholders of the transferee company.
15. Value of shares based on agreed value of net assets is known as the _______ value of shares.

Q3) STATE WHETHER TRUE OR FALSE

1. Two or more companies combining to form a new company is called absorption.
2. When the transferee company decides to compensate the transferor company on the basis of fair values of the assets and liabilities, the method of computing the purchase consideration is termed 'net payments method.'
3. In the case of amalgamation there are two or more liquidations and one formation.
4. According to AS-14 purchase consideration is the total amount agreed to be payable to different interests like shareholders, debenture holders, trade creditors etc.
5. Under the purchase method of accounting, the transferee Co. incorporates in its

books, the assets, liabilities, and statutory reserves of the transferor company.

6. Goodwill arising on amalgamation, as per AS-14 is to be retained in the books of the company till the winding up.

7. Under the ‘pooling of interest method’, the transferee company incorporates in its books only the external liabilities and assets of the transferor company.

8. In computing purchase consideration by ‘net assets method’ all assets including fictitious assets should be considered.

9. Capital Reserve arises only when the amalgamation is in the nature of ‘merger’.

10. Under external reconstruction, there is one liquidation and one formation.

11. Under Absorption, there are two or more liquidations and one formation.

12. In amalgamation of companies, there are two or more liquidations and one formation.

13. Under the ‘pooling of interests method’ the transferee company incorporates the assets and liabilities of the transferor company at fair values.

14. Under the ‘purchase method’ the transferee company incorporates the assets and liabilities of the transferor company at book values.

15. Under the purchase method, statutory reserves of the company are incorporated in the books of the transferee company, under Capital Reserves.

16. Fictitious assets are to be transferred to Amalgamation Adjustment A/c in books of the transferor company, on amalgamation by purchase.

17. Under the ‘pooling of interests method’ shares are issued by the transferee company at par.

18. Accounting standard AS-14 does not distinguish between amalgamation and absorption.

19. Absorption is said to take place when an existing company takes over one or more existing companies.

ANSWERS

Q1)

1. (c)	2. (b)	3. (a)	4. (d)	5. (c)	6. (a)	7. (c)	8. (a)	9. (d)	10. (b)
11. (c)	12. (a)	13. (b)	14. (c)	15. (c)	16. (c)	17. (c)	18. (a)	19. (b)	20. (b)
21. (b)	22. (b)	23. (b)	24. (b)	25. (c)	26. (b)	27. (b)	28. (a)	29. (b)	30. (a)
31. (a)	32. (a)	33. (b)	34. (b)	35. (b)	36. (d)	37. (a)	38. (a)	39. (a)	40. (a)
41. (b)	42. (b)	43. (c)	44. (a)	45. (c)	46. (c)	47. (b)	48. (b)	49. (a)	50. (a)
51. (d)	52. (b)	53. (c)	54. (a)	55. (b)	56. (c)	57. (a)	58. (b)	59. (c)	

Q2) (1) Amalgamation (2) Vendor; Purchasing (3) Absorption (4) External (5) Would not (6) Would not (7) No (8) 5 (9) Non-current (10) Will not (11) Goodwill (12) 90 (13) Equity (14) 90 (15) Intrinsic

Q3) True :3, 5, 10, 12, 17, 18, 19

False :1, 2, 4, 6, 7, 8, 9, 11, 13, 14, 15, 16

2 – ACCOUNTING OF TRANSACTIONS OF FOREIGN CURRENCY

Q1) MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is false?

a) AS 11 should be applied in accounting for transactions 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 statements

d) The principal issues in accounting for foreign currency transactions are to decide which exchange rate to use and how to recognize 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 rates in force during a period

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 rates in force during a period

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 rates in force during a period

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 assets and liabilities to be received or paid in fixed or determinable amounts of money

a) Current items

b) Non-monetary items

c) Monetary items

d) Forward Exchange Contract

8. Which of the following is a foreign currency transaction?

(i) an enterprise buys or sells goods or services whose price is denominated in a foreign currency

(ii) an enterprise borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency

(iii) an enterprise 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 the 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 transaction

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 statements 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 in terms 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 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 item.

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 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 balance 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 at the date of the balance sheet

d) using the lowest exchange rate during the financial year

15. Following Exchange differences should be recognized as income or an expenses 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 reported in previous financial statements
- **d)** all the above

16. Following Balances should be translated at the closing rate
- **a)** Non-monetary items valued at historical cost denominated in a foreign currency
- **b)** Monetary items
- **c)** Non-monetary items which are carried in terms of fair value, denominated in a foreign currency
- **d)** All 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 terms of fair value, denominated in a foreign currency
- **d)** All the above

18. Following Balances 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 terms of fair value, denominated in a foreign currency
- **d)** None of the above

19. No exchange difference will arise on
- **a)** inventory, fixed assets, investments etc. valued at historical cost denominated in a foreign currency
- **b)** cash, debtors or creditors
- **c)** inventory, fixed assets, investments 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 settling 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

Q2) FILL IN THE BLANKS

1. ______is the mean of the exchange rates in force during a period.
2. ______is the exchange rate at the balance sheet date.
3. ______difference is the difference resulting from reporting the same number of

units of a foreign currency in the reporting currency at different exchange rates.

4. ______rate is the ratio for exchange of two currencies.

5. ______Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

6. Foreign Currency is a currency other than the ______currency of an enterprise.

7. ________items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money.

8. ________items are assets and liabilities other than monetary items.

9. ________currency is the currency used in presenting the financial statements.

10. 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 ________.

11. Cash, receivable, and payable are examples of _______ items.

12. Fixed assets, inventories, and investments in equity shares are examples of _______ items.

13. 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 ________. (Transaction / Reporting)

14. 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 (Transaction / Reporting) ________.

15. The contingent liability denominated in foreign currency at the balance sheet date is disclosed by using the ________ rate.

Q3) 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 payable and examples of non-monetary items.

3. Inventories are 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 in presenting the 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 different number of units of a foreign currency in the reporting currency at different exchange rates.

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 rates.

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 rates.

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.

Answer :

Q1)

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

Q2)

(1) Average Rate
(2) closing rate
(3) exchange
(4) exchange
(5) fair
(6) reporting
(7) Monetary
(8) Non-monetary
(9) Reporting
(10) Transaction
(11) Monetary
(12) Non-monetary
(13) Transaction
(14) Transaction
(15) Closing

Q3) True : 3

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

3 – Liquidation of Companies

Q1. MULTIPLE CHOICE QUESTIONS

1. A company can be liquidated in any of following ways under the Companies Act, 2013 after 1-4-2017
- **a)** Compulsory winding-up by the Tribunal
- **b)** Voluntary winding-up by the Members or Creditors
- **c)** Winding-up under the supervision of the Court
- **d)** All of the above

2. List H shows _______ Account.
- **a)** Deficiency or Surplus
- **b)** Preferential Creditors
- **c)** Fixed Assets Account
- **d)** None of the above

3. When a company is wound-up, all persons who ceased to be the shareholders within a year before the winding-up are placed in the
- **a)** 'A' List of Contributories
- **b)** 'B' List of Contributories
- **c)** 'C' List of Contributories
- **d)** 'D' List of Contributories

4. If default is made in delivering the annual return to the Registrar, the company is likely to face
- **a)** compulsory winding up by the tribunal
- **b)** voluntary winding up by members
- **c)** voluntarily winding up by creditors
- **d)** none of the above

5. Following is treated as over-riding preferential creditor
- **a)** Retirement benefits of employees
- **b)** Retirement benefits to workers
- **c)** Salary due to employees exceeding ₹ 20,000
- **d)** Remuneration to investigator

6. Remuneration to investigator upon investigation of the affairs of company is treated as
- **a)** Secured creditor
- **b)** Over-riding preferential creditor

c) Preferential creditor
d) Unsecured creditor

7. Amount of Govt. dues that arose within 12 months before the date of winding up is treated as
a) Secured creditor
b) Over-riding preferential creditor
c) Preferential creditor
d) Unsecured creditor

8. Amount of Retirement benefits of employees exceeding ₹ 20,000 per employee is treated as
a) Secured creditor
b) Over-riding preferential creditor
c) Preferential creditor
d) Unsecured creditor

9. Preference dividend in arrears on the date of winding up is
a) treated as Secured creditor
b) treated as Over-riding preferential creditor
c) treated as Preferential creditor
d) added to Preference Share Capital

10. Amount of calls in advance is treated as
a) Secured creditor
b) Asset not specifically pledged
c) Preferential creditor
d) Unsecured creditor

11. Interest on debentures and unsecured loan is payable upto the date of actual payment
a) if the company is solvent
b) if the company is insolvent
c) whether the company is solvent or insolvent
d) none of the above

12. Accrued holiday remuneration becoming payable to any workman is treated as
a) Secured creditor
b) Over-riding preferential creditor
c) Preferential creditor
d) Unsecured creditor

13. Liability for compensation under Workmen's Compensation Act is treated as
a) Secured creditor
b) Over-riding preferential creditor
c) Preferential creditor
d) Unsecured creditor

14. If the remuneration to liquidator is payable as a percentage of collection
a) include opening cash and bank balance
b) exclude closing cash and bank balance
c) exclude opening cash and bank balance
d) exclude both opening and closing cash and bank balance

15. If the remuneration to liquidator is payable on distribution,

a) exclude distribution to preferential and unsecured creditors and contributories
b) include distribution to preferential and unsecured creditors but exclude distribution to contributories
c) exclude distribution to preferential creditors but include distribution to unsecured creditors and contributories
d) include distribution to preferential and unsecured creditors and contributories

16. All contributions payable during the 12 months next under the *Employees State Insurance* Act, 1948
a) are treated as overriding preferential creditors
b) are treated as preferential creditors unless the company is being wound up voluntarily for the purpose of reconstruction
c) are treated as unsecured creditors
d) are treated as preferential creditors unless the company is being wound up compulsorily by the Court

17. A contributory is a
a) Unsecured creditor
b) Preferential creditor
c) Shareholder
d) Debenture holder

18. List 'A' in statement of affairs gives the list of
a) Assets specifically pledged
b) Assets not specifically pledged
c) Preferential creditors
d) Unsecured creditors

19. List 'E' in statement of affairs gives the list of
a) Preferential creditors
b) Debenture holders
c) Unsecured creditors
d) Secured creditors

20. Secured creditors are shown in the statement of affairs under :
a) List A
b) List B
c) List C
d) List D

21. Preferential creditors are shown in the statement of affairs under :
a) List D
b) List B
c) List C
d) List A

22. The proceeds of assets not specifically pledged and the surplus of the assets specifically pledged is first available for
a) Preferential creditors
b) Unsecured creditors
c) Legal charges, liquidator's remuneration and liquidation expenses
d) Preference shareholders

23. Any sum due to an employee out of provident fund is an example of :
- **a)** Unsecured creditor
- **b)** Preferential creditor
- **c)** Secured creditor
- **d)** Partly secured creditor

24. Bills were discounted to the extent of ₹ 10,000 of which bills of ₹ 4,000 are likely to be dishonoured. Hence, the liability to rank in respect of these bills will be
- **a)** ₹ 10,000
- **b)** ₹ 4,000
- **c)** ₹ 6,000
- **d)** ₹ 14,000

25. When the sale proceeds of pledged security is not sufficient to pay off secured creditors fully, the balance due to them should be added to
- **a)** Unsecured creditors
- **b)** Preferential creditors
- **c)** Equity share capital
- **d)** Preference share capital

26. When the liquidated company has adequate cash to pay off all liabilities, the interest on liabilities should be paid :
- **a)** upto date of commencement of insolvency proceedings
- **b)** upto the date of actual payment of liabilities
- **c)** upto the date of payment to shareholders
- **d)** none of these

Q2. FILL IN THE BLANKS

1. Amount of Govt. dues that arose within 12 months before the date of winding up is treated as _______ creditor.

2. Amount of Retirement benefits of employees exceeding ₹ 20,000 per employee is treated as ______creditor.

3. _______ Account is prepared, in case of a company under liquidation, to explain in brief how the company lost money.

4. In the Statement of Affairs, unpaid calls _______(are/are not) to be included under Assets.

5. In the Statement of Affairs, uncalled capital ______ (is /is not) to be included under Assets.

6. A past member _______ (is / is not) liable to make a contribution if the shares were transferred by operation of law or by death.

7. A past member ______ (is / is not) liable to make a contribution if the liability was contracted after he ceased to be a member.

8. A past member _______ (is / is not) liable to make a contribution if the present members are able to contribute sufficient amount to pay off all the dues.

9. If the company is ______ (solvent / insolvent), interest on debentures is payable upto the date of actual payment.

10. If the company is insolvent, interest on debentures is payable upto the date of______ (winding up / actual payment).

11. If the remuneration to liquidator is payable as a percentage of collection, opening cash and bank balance is _______ (included / excluded).

12. If the remuneration to liquidator is payable on distribution, distribution to preferential creditors is ______ (included / excluded).
13. If the remuneration to liquidator is payable on distribution, distribution to unsecured creditors is ______ (included / excluded).
14. If the remuneration to liquidator is payable on distribution, distribution to contributories is ______ (included / excluded).
15. The job of realizing assets and paying various liabilities during liquidation of a company is performed by a person called ______.
16. When winding up takes place, shareholders are described as ______.
17. If the company is insolvent, debenture interest is payable only upto the date of ______.
18. At the time of liquidation of a company, the liquidators have to file a statement of receipts and payments known as _____.
19. List 'H' shows _______ A/c.
20. When a company is liquidated, all persons who ceased to be the shareholders within a year before the winding up are placed in the _______.
21. Assets not specifically pledged are shown in the statement of affairs at _______ values.
22. Debenture holders secured by first floating charge are paid after the payment to _______.
23. The deficiency shown by deficiency A/c will be equal to the deficiency revealed by the ______.

Q3. STATE WHETHER TRUE OR FALSE.

1. Only an insolvent company can be liquidated.
2. In the Statement of Affairs, unpaid calls are to be included under Assets.
3. In the Statement of Affairs, uncalled capital is to be included under Assets.
4. A past member is not liable to make a contribution if the shares were transferred by operation of law or by death.
5. A past member is not liable to make a contribution if the liability was contracted after he ceased to be a member.
6. A past member is not liable to make a contribution if the present members are able to contribute sufficient amount to pay off all the dues.
7. If the company is insolvent, interest on debentures is payable upto the date of actual payment.
8. Amounts due to any workman from a provident fund maintained by the company are treated as over-riding preferential creditors.
9. If the remuneration to liquidator is payable as a percentage of collection, opening cash and bank balance is excluded.
10. If the remuneration to liquidator is payable on distribution, distribution to preferential creditors is included.
11. If the remuneration to liquidator is payable on distribution, distribution to unsecured creditors is excluded.
12. If the remuneration to liquidator is payable on distribution, distribution to contributories is included.
13. Arrears of Preference dividend will be paid only when preference share capital and then equity share capital are returned in full and surplus is left.

14. Local taxes are an examples of secured creditors.
15. Preferential creditors are to be treated like unsecured creditors while computing liquidator's remuneration on the amount paid to unsecured creditors.
16. A contributory can only be a present member of the liquidated company.
17. The liquidator is not entitled to claim remuneration on the cash balance unless otherwise given.
18. In liquidator's final statement of A/c, payment to preferential creditors is shown after the payment to debenture holders.
19. In statement of affairs, payment to debenture holders is shown after the payment to preferential creditors.
20. Preferential creditors are treated as fully secured creditors when they can be fully paid.
21. Surplus, if any, from the creditors having been secured on the assets specifically pledged, is added to the estimated realizable value of the assets not specifically pledged.

Answers:
Q1

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

Q2 (1) Preferential (2) Preferential (3) Deficiency (4) are (5) is not 6) is not (7) is not (8) is not (9) solvent (10) winding up (11) excluded (12) included (13) included (14) included (15) Liquidator (16) Contributories (17) Commencement of insolvency (18) Liquidator's final statement of A/c (19) Deficiency or Surplus (20) 'B' List of contributories (21) Estimated realizable (22) Preferential creditors (23) Statement of affairs

Q3 True : 2, 4, 5, 6, 8, 9, 10, 12, 13, 15, 17, 18, 19, 21
False : 1, 3, 7, 11, 14, 16,20

4 – Underwriting of Shares and Debentures

Q1. MULTIPLE CHOICE QUESTIONS

1. The underwriting commission in case of debentures as per the Companies Act shall not exceed
  a) 5 percent of issue price
  b) 10 percent of the issue price
  c) 2.5 percent of the issue price
  d) 2 per cent of the issue price
2. As per SEBI guidelines, the underwriting commission on equity shares
  a) 10 per cent of the issue price
  b) 5 per cent of the issue price

c) 2.5 per cent of the issue price
d) 2 per cent of the issue price

3. The underwriting commission in case of ₹ 4 lakh preference shares capital subscribed to by the public, under Ministry of Finance guidelines, should not exceed
a) 2.5 per cent
b) 1 per cent
c) 2.00 per cent
d) 1.5 per cent

4. According to the Companies Act the underwriting commission on shares should not exceed
a) 5 per cent
b) 2.5 per cent
c) 10 per cent
d) 1 per cent

5. The underwriting commission is calculated on
a) net liability of the share value
b) firm underwriting value of the shares
c) marked application of the share value
d) issue price of the shares underwritten

6. Unmarked applications refer to
a) Firm underwriting
b) Applications issued by the company
c) Applications bearing the stamp of underwriter
d) Applications from the public received directly by the company without bearing any stamp of underwriter

7. When all the shares are underwritten by the underwriters, it is called
a) Firm underwriting
b) Partial underwriting
c) Complete underwriting
d) None of the above

8. Marked applications refer to
a) Applications bearing the seal of underwriting
b) Applications bearing the signature of applicants
c) Applications issued by company
d) None of the above.

9. R Limited issued a debenture of ₹ 100 each at ₹ 90. The underwriting commission will be paid on
a) ₹ 100
b) ₹ 95
c) ₹ 105
d) ₹ 90

10. M Limited issued shares at a face Value of ₹ 100 with a premium of ₹ 20 per share. The underwriting commission will be calculated on
a) ₹ 100
b) ₹ 90
c) ₹ 80

   d) ₹ 120

11. When the entire issue is underwritten by only one person, his liability will be equal to

   a) No. of shares underwritten

   b) No. of shares underwritten minus no. of shares applied for by the public

   c) No. of shares applied for by the public

   d) None of the above

12. Marked applications refers to

   a) Applications bearing the stamp of the underwriters

   b) Applications carrying the signatures of public who applied for shares

   c) Applications carrying the stamp of company which offered the shares

   d) None of the above

13. Unmarked applications refers to

   a) Applications bearing the stamp of the underwriters

   b) Applications from public received directly by the company without bearing any stamp of underwriters

   c) Applications issued by the company to underwriters

   d) None of the above

14. The underwriter is entitled to claim remuneration on

   a) the issue price of shares underwritten

   b) the face value of shares actually purchased

   c) the face value of shares not purchased by him

   d) None of the above

15. If the whole of the issue of shares or debentures is underwritten it is known as

   a) Partial underwriting

   b) Sole underwriting

   c) Complete or Full underwriting

   d) None of the above

16. If a part of the issue of shares or debentures is underwritten, it is termed as

   a) Partial underwriting

   b) Complete underwriting

   c) Firm underwriting

   d) None of the above

17. When an underwriter agrees to buy a definite number of shares in addition to unsubscribed shares, it is termed as

   a) Partial underwriting

   b) Firm underwriting

   c) Complete underwriting

   d) None of the above

18. According to the Companies Act, the commission payable to underwriter for underwriting shares should not exceed

   a) 5%

   b) 10%

   c) 2.5%

   d) 1.5%

19. Commission for underwriting shares as per the guidelines issued by the Stock Exchange division of the Dept. of Economic Affairs, Ministry of Finance (F14/1/SE/85-7-5-85) and also as per SEBI guidelines should not exceed

a) 5%
b) 2.5%
c) 10%
d) 1.5%

20. The underwriting commission in the case of debentures as per Companies Act, should not exceed:

a) 5% of the price at which debentures are issued
b) 4% of the price at which debentures are issued
c) 2 ½% of the price at which the debentures are issued
d) None of the above

21. As per SEBI guidelines, commission payable to underwriters for underwriting Preference shares or Debentures upto ₹ 5 lakhs, should not exceed

a) 5%
b) 2.5%
c) 10%
d) 1.5%

22. The Underwriting Commission in case of Preference Shares / Debentures beyond ₹ 5 lakhs as per SEBI guidelines, should not exceed

a) 2%
b) 2.5%
c) 5%
d) 1.5%

23. K Ltd. issued shares of ₹ 1,000 each at ₹ 950. The Underwriting Commission will be paid on

a) ₹ 1,000
b) ₹ 950
c) ₹ 1,950
d) ₹ 50

Q2. FILL IN THE BLANKS

1. When an underwriter agrees to buy a definite number of shares in addition to the unsubscribed shares, it is called ______underwriting.
2. When the entire issue is underwritten by only one person, it is called _______ underwriting.
3. Mr. X has underwritten 40,000 shares, but the public applied for 50,000 shares. Therefore, Mr. A will get commission on the issue price of ______ shares.
4. As per Ministry of Finance guidelines, the underwriting commission on the issue of equity shares should not exceed ______ per cent.
5. ______ is the maximum percentage of underwriting commission on shares as per the Companies Act.
6. Underwriter A/c is ______ when commission is due.
7. Underwriter A/c is ______ when a company pays the underwriter.
8. Under partial underwriting, the company itself becomes the underwriter for the shares _______. (underwritten / not underwritten)

9. An underwriter may reduce his burden of buying shares through entering an agreement with another person known as ______.
10. A company issued 20,000 equity shares which were underwritten by X. The company received applications for 24,000 shares. Hence X will get his commission on the issue price of ______ shares.
11. When shares or debentures are alloted to the underwriters, the Underwriters A/c is ________.
12. When commission becomes payable to the underwriters, the Underwriters A/c is ________.
13. Bank A/c is _______ when the net amount due from the underwriters on the shares taken up by them is received.

9.3 STATE WHETHER TRUE OR FALSE

1. When the underwriting commission becomes payable, the underwriter A/c is debited.
2. The underwriting commission is payable in cash.
3. Unmarked applications are known as direct applications.
4. Underwriting may be done by individuals, partnership firms or joint stock companies.
5. The percentage of underwriting commission on shares applied to by public is the same as on shares devolved on the underwriters.
6. The underwriting commission is payable in cash alone.
7. Under firm underwriting, the underwriters do not agree to purchase any shares.
8. The underwriters may be individuals, partnership firms or joint stock companies.
9. The applications received directly by the company which do not bear any stamp of the underwriters are called 'Marked Applications'.
10. The net liability of underwriter, under complete underwriting, can be ascertained by deducting total applications received from shares or debentures offered.
11. Unmarked applications can be distributed among the underwriters in the ratio of gross liability.
12. Marked applications are also known as direct applications.

CHECK YOUR ANSWERS

Q1

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

Q2

(1) firm (2) sole or single (3) 40,000 (4) 2.5 per cent (5) 5 per cent (6) credited (7) debited (8) not underwritten (9) sub-underwriter (10) 20,000 (11) debited (12) credited (13) debited

Q3. True : 3, 4, 8, 10, 11
False : 1, 2, 5, 6, 7, 9, 12

5 – Accounting for Limited Liability Partnership

Q1. MULTIPLE CHOICE QUESTIONS

1. LLP should have minimum
- **a)** 7 partners
- **b)** 50 partners
- **c)** 2 partners
- **d)** 3 partners

2. The maximum number of partners LLP can have is
- **a)** 7 partners
- **b)** 50 partners
- **c)** 2 partners
- **d)** No limit

3. Every limited liability partnership shall have at least ______ designated partners who are individuals.
- **a)** 7
- **b)** 50
- **c)** 2
- **d)** 3

4. At least ______ of the designated partners of every limited liability partnership shall be a resident in India.
- **a)** one
- **b)** two
- **c)** three
- **d)** seven

5. In absence of LLP Agreement, the mutual rights of Partners and in relation to LLP will be determined as per Schedule _______ of the LLP Act 2008.
- **a)** I
- **b)** II
- **c)** VI
- **d)** VIII

6. A Limited Liability Partnership whose contribution exceeds Rs. _______ is required to annually get its accounts audited by any Chartered Accountant in practice.
   a) 40 Lakh
   b) 1 lakh
   c) 25 Lakh
   d) 50 lakh
7. A Limited Liability Partnership whose turnover exceeds ₹ ______ is required to annually get their accounts audited by any Chartered Accountant in practice.
   a) 40 Lakh
   b) 1 lakh
   c) 25 Lakh
   d) 50 lakh
8. LLP is governed by
   a) Partnership Act, 1932
   b) Companies Act, 1956
   c) Limited Liability Partnership Act, 2008
   d) Companies Act, 2013
9. Following can become a partner in the LLP:
   a) Company incorporated in India
   b) LLP incorporated outside India
   c) Individuals resident outside India
   d) any of the above
10. Following can become a partner in the LLP:
   a) Company incorporated outside India
   b) LLP incorporated in India
   c) Individuals resident in India
   d) any of the above
11. A partner of LLP has the following right, only if provided in the LLP agreement
   a) participate in the management of the LLP
   b) get remuneration for participating in the management of LLP
   c) share equal profits in the LLP
   d) transfer his right to share in the profit/losses of the LLP

Q2. FILL IN THE BLANKS

1. Limited Liability Partnership Act, 2008 came into effect by way of notification dated _______ DD-MM-YYYY.
2. "Designated partner" means any partner designated as such pursuant to section ________ of Limited Liability Partnership Act 2008.
3. Every limited liability partnership shall have at least _______ designated partners who are individuals.
4. At least _______ of the designated partners of every limited liability partnership shall be a resident in India.
5. In absence of LLP Agreement, the mutual rights of Partners and in relation to LLP will be determined as per Schedule ______ of the LLP Act 2008.
6. A Limited Liability Partnership whose contribution exceeds ₹ ______ is required to annually get its accounts audited by any Chartered Accountant in practice.

7. A Limited Liability Partnership whose turnover exceeds ₹ ______ is required to annually get their accounts audited by any Chartered Accountant in practice.
8. Every partner of a Limited Liability Partnership is, for the purpose of the business of the Limited Liability Partnership, the agent of the _______ (Limited Liability Partnership / other partners), but not of the ______ (Limited Liability Partnership / other partners).
9. Partners ______ (are / are not) entitled to any remuneration for participating in the management of LLP unless otherwise provided in the LLP Agreement.
10. In case there is any change in name and address of partner he shall inform the same to LLP within _______ days of such change.
11. If any partner desires to resign from the partnership he shall inform the same by giving a_______ days notice to other partners.
12. The Liability of Partners in LLP is limited to the extent of their _______.
13. Any partner of the LLP ______ (would / would not) be liable for the wrongful act or omission of any other partner of the limited liability partnership.
14. Designated Partners ______ (are / are not) entitled to any remuneration for their participation in management of LLP unless otherwise specifically provided in the LLP Agreement.
15. Any vacancy arising in the office of Designated Partner shall be filled within ______days.
16. In case of conversion of Private Limited Company into LLP, all the ______ of the Company must become partners in the LLP and no one else.
17. Limited Liability Partnerships who mandatorily require auditing of their accounts shall appoint an auditor within ______ days before the end of each Financial Year.
18. In case if an auditor is unwilling to be re-appointed he shall give a notice in writing to that effect at the LLP's registered office, not less than _______ days before the end of the time allowed for appointing the new auditor.

Q3. STATE WHETHER TRUE OR FALSE, GIVING REASONS IN BRIEF

1. LLP should have minimum 7 partners.
2. LLP should have maximum 20 partners.
3. Foreign Nationals cannot be a partner in LLP.
4. Insolvency of a partner of LLP automatically results in its dissolution.
5. Company incorporated outside India can become a partner in a LLP.
6. Company incorporated in India cannot become a partner in a LLP.
7. LLP incorporated in India cannot become a partner in a LLP.
8. LLP incorporated outside India can become a partner in a LLP.
9. An individual resident outside India cannot become a partner in a LLP.
10. Every partner of a Limited Liability Partnership is the agent of the Limited Liability Partnership.
11. A partner of a Limited Liability Partnership is an agent of the other partners.
12. The rights of a partner to a share of the profits and losses of the limited liability partnership in accordance with the Limited Liability Partnership agreement are transferable.
13. The Liability of Partners in LLP is limited to the extent of their contribution.
14. Audit is not compulsory for all LLPs.
15. A Limited Liability Partnership must have a minimum of Contribution of 1 lakh.

16. Every partner of a Limited Liability Partnership must have a share in the Contribution.

17. Contribution by a partner to LLP must be in cash or cheque only.

18. LLP must maintain books of accounts on accrual basis only.

Answer:

Q1.

1. (c)	2. (d)	3. (c)	4. (a)	5. (a)	6. (c)	7. (a)	8. (c)	9. (d)	10. (d)
11. (b)									

Q2.

(1) 31-03-2009 (2) 7 (3) two (4) one (5) I (6) 25 Lakh (7) 40 lakh
(8) Limited Liability Partnership, other partners (9) are not (10) 15 (11) 30
(12) contribution (13) would not (14) are not (15) 30 (16) shareholders (17) 30
(18) 14

Q3.

True : 5, 8, 10, 12, 13, 14

False : 1, 2, 3, 4, 5, 6, 7, 9, 11, 15, 16, 17, 18