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ALL CHAPTERS

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IMPORTANT THEORY QUESTIONS AND ANSWERS

PART-A PARTNERSHIP AND COMPANY ACCOUNTS

FUNDAMENTALS OF PARTNERSHIP

1. **What is meant by Partnership? / Define Partnership**.
   Ans. According to Section 4 of Indian Partnership Act 1932, "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

2. **What is the status of partnership firm from an accounting viewpoint?**
   Ans. From the accounting view point, Partnership is a separate business entity from the partners.

3. **Which Act of the Parliament specified the number of partners in Partnership?**
   Ans. Section 464 of Companies Act, 2013.

4. **Name the Act under which partnership is governed?**
   Ans. Partnership Act, 1932.

5. **What is a legal status of a firm?**
   Ans. A firm is not a legal person it is merely a collection of partners.

6. **Mention two items that are recorded in Partners Fixed Capital Account**.
   Ans. i) Capital Withdrawal ii) Fresh Capital Introduced.

7. **What are the circumstances under which the balance of the 'Fixed capitals Accounts' may change?**
   Ans. i) Additional capital Introduced. ii) Capital Withdrawn.

8. **Would a "Charitable Dispensary" run by 8 members be deemed a Partnership Firm? Give reason in support of your answer.**
   Ans. Charitable Dispensary run by 8 members cannot be deemed a Partnership firm because:
   (i) In Partnership, there must be a business;
   (ii) There must be sharing of profits from such business among the partners.

9. **Why is it preferable to have a written agreement between the partners?**
   Ans. To avoid all kinds of misunderstanding and disputes among the partners.

10. **Why is that the Fixed Capital Account of a partner does not show "Debit Balance" in spite of regular and**

Consistent losses year after year?
Ans. When the capitals are fixed, the Capital Account of a partner will never show debit balance since, all transactions between the firm and the partner are recorded in Current Account.

11. **A & B are two working partners whereas B is sleeping partner in the firm. B wants to inspect books of Accounts but A denies. What shall be done?**
Ans. A is wrong, he cannot deny as B holds the right to inspect the accounts.

12. **Under fixed capital method, partner's drawings are shown in which account?**
Ans. Partners Current A/cs.

13. **Debit balance of Partners Current A/Cs is shown on which side of the balance sheet?**
Ans. Assets side.

14. **Give the journal entry of P & L credit balance.**
Ans. Profit and Loss A/c Dr
To Profit and Loss Appropriation A/c.

15. **If the partners' capitals account are fixed where will you record drawings of partners?**
Ans. Debit side of partners current A/c.

16. **How will you calculate interest on drawings when date of withdrawal is not given?**
Ans. It will be calculated on the average basis of 6 months.

17. **In which account interest on partners loan is debited and why?**
Ans. It is debited to Profit and Loss Account because it is a charge against theprofit.

18. **A and B are partners in a firm sharing profit in the ratio of 3:2. They had advanced to the firm a sum of Rs. 30,000 as a loan in their profits sharing ratio on 1st Oct. 2014. The partnership deed is silent on the question of interest on loan for partners. Compute the interest payable by the firm to the partners, assuming the firm closes its books on 31st March.**
Ans. A- Rs.540 B- Rs. 360. (Note: In the absence of Partnership deed, 6% p.a will be allowed as Interest on Loan)

19. **In the absence of Partnership deed, how are mutual relations of partners governed?**
Ans. In the absence of |Partnership deed, mutual relations are governed by The Indian partnership Act 1932.

20. **A,B and C are partners and decided that no interest on drawings is to be charged from any Partner. But after one Year 'C'wants that interest on drawings should be charged from every partner. State how 'C' can do this?**
Ans. He can do so only by changing the Partnership deed with the consent of all partners.

21. **Can a Partner be exempted from sharing the losses in a firm? If yes, under what circumstances?**
Ans. Yes, if Partnership Deed provides so.

22. **What share of profits would a "sleeping partner" who has contributed 75% of the total Capital get in the absence of Partnership Deed?**
Ans. In the absence of Partnership Deed, a sleeping partner will get equal share of profits.

ADMISSION OF A PARTNER

23. **Define goodwill**.
Ans. Goodwill is the value of the reputation of a firm in respect of profits expected in future, over and above the normal profits.

24. **What is Purchased Goodwill?**
Ans. When one business is taken over by another business, the excess of purchase consideration over its net value (assets – liabilities) is termed as purchased goodwill.

25. **What is Non- Purchased Goodwill?**
Ans. Non-Purchased Goodwill is an internally generated goodwill which arises because of favourable factors that a business possesses.

26. **Why is Goodwill considered as an Intangible Asset but not a Fictitious Asset?**

Ans. It is not fictitious asset because it has a realizable value. It is an intangible asset because it cannot be seen and touched.

27. State two occasions when there is a need of valuation of goodwill?
Ans. i) When a new partner is admitted.
ii) When there is a change in the profit sharing ratio among the existing partners.

28. How does location affect the Goodwill of a business?
Ans. If the business is located at a favorable and prominent location then it increases the value of Goodwill. It is the location of the business in the market which, to a great extent, helps in attracting the customers. Thus, a favorable location of business enhances its Goodwill.

29. When will you record Goodwill in the book, as per Accounting Standard-10(AS-10)?
Ans. According to AS-10, Goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it.

RETIREMENT OF A PARTNER

30. Give two circumstances in which Gaining Ratio is computed.
Ans. i) When a partner retries or dies.
ii) When there is a change in the profit sharing ratio.

31. If the retiring partner is not paid fully immediately on retirement. How should his capital account be shown in subsequent Balance Sheet?
Ans. If the retiring partner is not fully paid immediately on retirement, the remaining balance of his capital account will be transferred to his loan account and will be shown as his loan account on liabilities side of the Balance Sheet.

DEATH OF A PARTNER

32. What are the two methods of calculating profits of a retiring/Deceased Partner?
Ans. (a) Time Basis and (b) Turnover Basis

33. On the death of a partner, his executor is paid the share of profits of the dying partner for the relevant period. Where is this payment recorded?
Ans. This payment is recorded in Profit and Loss Suspense a/c i.e.
Profit and Loss Suspense a/c……… Dr
To Deceased Partners Capital a/c

CHANGE IN PROFIT SHARING RATIO

34. What is meant by reconstitution of a Partnership firm?
Ans. Any change in the relationship among the partners in a firm amounts to reconstitution of partnership firm. Eg; Admission of a new Partner, Retirement and death of a Partner and change in Profit sharing ratio.

35. Distinguish between Sacrificing Ratio and Gaining Ratio.

Basis	Sacrificing Ratio	Gaining Ratio
When to Calculate	At the time of admission of a New Partner	At the time of Retirement and death of a Partner
How to Calculate	Old Ratio – New Ratio	New Ratio – Old Ratio

36. What is meant by change in profit sharing ratio among the existing partners?
Ans. Change in profit- sharing ratio means that one(or more) partner(s) acquires share of profit from anotherpartner(s).

37. When there is a change in the profit-sharing ratio among the existing partners, does it require revaluation of assets and reassessment of liabilities?
Ans. Yes. Because profit or loss up to the change in profit-sharing ratio, should be credited or debited to theaccounts of the partners in their old profit-sharing ratio.

38. Who should compensate in the case of change in profit-sharing ratio of existing partners?
Ans. The gaining partners should compensate the sacrificing partners in case of change in profit-sharing ratio of existing partners.

DISSOLUTION OF PARTNERSHIP FIRM

39. **When can a firm be compulsory dissolved?**
Ans. When the business becomes unlawful or on the insolvency of all or one partners a firm can be compulsory dissolved.

40. **What is a private debt?**
Ans. Debt owned by a partnerpersonally to any other person is called private debts.

41. **What is meant by firm's debt?**
Ans. Debts of the firm owed to the third parties is called firm's debts.

42. **What is the liability of the partners for firm's debt?**
Ans. Partners are jointly and severally liable for firm's debt.

43. **What amount of partner's private property can be utilized for payment of firm's debt?**
Ans. Surplus of partner's private property over private debts can be applied for firm's debts.

44. **Provisions for doubtful debts Rs.15,000, Provisions for Depreciation Rs.3,10,000. Provident Fund Rs.58,000 has been transferred to the credit side of Realization Account. For which item the payment is to be made by the firm.**
Ans. Provident Fund.

45. **Why is partner's loan not transferred to Realization Account.**
Ans. Partner's loan is not an outside liability.

46. **How is Cash/Bank account closed at the time of dissolution of the firm?**
Ans. After paying the amount due to the partners the Cash/Bank amount automatically gets closed.

47. **Name the account which co-exists with Partner's Capital Account till the final payment to partner is made**.
Ans. Cash/Bank Account.

48. **The Capital Account of one of the partners who is solvent, shows a debit balance. How will this be settled?**
Ans. The partner will be required to bring cash equal to his debit balance,

49. **Can there be a balance in Cash Account after partners have been paid their final balance?**
Ans. No.

50. **Give the objects of preparing realization account on the dissolution of a firm.**

Ans. (a) To close various assets and liabilities account.
(b) To find out the net profit/loss on realization of various assets and settlement of various liabilities.

51. **In the case of dissolution of partnership firm mention the order in which the liabilities of a firm are paid.**

Ans. (a) Outside liabilities of the firm (e.g. Creditors, loan, bank overdraft, bills payable, advances from partner's relative's etc.)
(b) Loans extended by the partners
(c) Capital contribution of the partners
(d) Any surplus left is distributed among all partners in their profit sharing ratio.

52. **A's Capital Account has a Credit Balance of Rs.1,00,000. Bank Balance is Rs.4,50,000 A's Loan Account is showing a debit balance of Rs.36,000. Show the treatment for A's Loan A/c**.
Ans. A's loan a/c will be debited to A's Capital a/c.
A's Capital A/c Dr. 36,000
To A's Loan A/c 36,000
(Note: If A's loan A/c shows a credit balance, it will be paid off through Cash A/c.)

53. **Why should Debtors be transferred to Realisation Account at gross value and not at net value(Gross value- Provision for Doubtful Debts) at the time of Dissolution of a firm?**
Ans. It is so because they are two separate accounts, namely,(i) Debtors, and (ii) Provision for Doubtful Debts. If debtors are transferred at a net amount, the balance will be outstanding both the accounts and

thus, the two accounts will not close.

54. **Name the asset which is not transferred to the debit side of Realisation Account but can bring certain amount of cash against its disposal**
Ans. Unrecorded Asset is not transferred to the debit side of Realisation Account but can bring certain amount of cash against it disposal.

55. **If Goodwill is already appearing in the Balance Sheet but is not realized, what would be the accounting treatment?**
Ans. Goodwill will be transferred to realization a/c but no further treatment regarding realizing it.

COMPANY ACCOUNTS (ISSUE AND FORFEITURE OF SHARES)

56. **What is a Company?**
According to Companies Act 2013 a Company is an entity incorporated through a process of law for undertaking a business. It is an artificial person distinct and separate from its members who are known as shareholders.

57. **What is a Company limited by Guarantee?**
Company limited by guarantee means a company having the liability of its members limited by the Memorandum to such amount as the members may respectively undertake to contribute to the assets of the Company in the event of it being wound up.

58. **What is a Company limited by Shares?**
Company limited by Shares means a company having the liability of its members limited by the Memorandum to the amount, if any, unpaid on the shares respectively held by them.

59. **What is meant by authorized capital of the company?**
Ans. Authorized, Registered or Nominal capital means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company.

60. **What is issued capital?**
Ans. Issued Share Capital means such capital as the company issues from time to time for subscription.

61. **What is subscribed capital?**
Ans. Subscribed Share Capital means such part of the Capital which is for the time being subscribed by the members of a company.

62. **What is meant by called up capital?**
Ans. Called up Capital means such part of the capital which has been called for payment.For eg. If the directors call at rate of Rs.6 per share on 1.00,000 shares of Rs.10 each then Rs.6,00,000 will be the called capital. The remaining capital Rs.4 per share is uncalled capital.

63. **What is paid up Share Capital or Share Capital Paid up?**
It means such aggregate of money credited as paid up as is equivalent to the amount received as paid up in respect of shares issued and also includes any amount credited as paid up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called.

64. **What is a Share?**
Share means a share in the share capital of a company and includes stock.

65. **What is meant by sweat equity shares?**
Ans. . Sweat Equity shares are those shares which are issued by the Company to its Employees or Directors at a discount or for consideration other than cash for providing know-how or making available rights to use intellectual property.

66. **What is ESOP/ESOS (Employees Stock Option Plan/ Scheme)?**
Ans. Employee stock option plan drawn to issue securities (Shares., etc) to employees (including whole time directors) at a discount, ie., at a price which is lower than its market value. The Companies Act 2013 (section 53) prohibits issue of shares at a discount. But, through Section 54, it permits issue of ESOP's at a discount.

67. **Can a company issue a share at a discount?**
Ans. The Companies Act 2013 (section 53) prohibits issue of shares at a discount. But, through Section 54, it permits issue of ESOP's at a discount.

68. Where does Securities Premium appear in Balance sheet?

Ans. Under Reserves and Surplus on Liabilities side.

69. What is oversubscription?

Ans. Shares are said to be oversubscribed when the number of shares applied for is more than the number of shares offered to public for subscription. Under subscription is opposite of it.

70. What is pro-rata allotment of shares?

Ans. When issue is oversubscribed and the company allots shares on proportionate basis. It means that smaller number of shares are allotted to each applicant according to the number of shares applied.

71. What is interest charged/provided on calls in arrears and calls in advance as per Table 'F' of the Companies Act.

Ans. (a) Calls in Arrears: 10% p.a. (b) Calls in advance: 12% p.a.

72. At the time of winding up the company which shares are paid first?

Ans. Preference Shares.

73. What is IPO?

Ans. IPO means initial Public Offering. It is the first sale of stock by a Company to the Public.

74. What is the best way of utilizing securities premium account?

Ans. Issue of bonus shares.

75. The gain of reissue of shares is transferred to which account?

Ans. Capital Reserve

76. Ans**What is private placement of Shares?**

Ans. According to Sec 81(1A) of the Companies Act, 1956, private placement of shares implies issue and allotment of shares to a selected group of persons.

77. What is Preferential Allotment?

Ans. A Preferential allotment is one that is made at a predetermined price to the pre-identified people who wish to take a strategic stake in the company such as promoters, Venture Capitalist, Financial institutions, buyers of companies products or its suppliers. For these shares, there is lock in- period for three years.

78. What is buy-back of Shares?

Ans. The term buy-back of shares implies the act of purchasing its own shares by a company either fromfree reserves, Securities Premium or proceeds of any shares or securities. According to Sec.77A of the companies Act, 1956, a company can buy its own shares either from:

(a) the existing equity shareholders

(b) (b) the Employees of the company pursuant to a scheme of stock option or sweat equity.

79. What is Escrow Account?

Ans. The word 'Escrow' means a contract or bond deposited with a third person, by whom it is to be delivered to the guarantee on the fulfilment of some condition. In order to perform obligations under the scheme of buy back of securities, a company is required to open an escrow account.

80. Distinguish between Equity Shares and Preference Shares.

Basis	Equity share	Preference share
Preferential Right for dividend	Payment of equity dividend is made after the payment of preference dividend.	Payment of preference dividend Is made before the payment of Equity dividend.

81. Distinguish between Shares and Debentures

Basis	Share	Debenture
Capital vs. Loan	Share is a part of owned capital.	Debenture constitutes a loan.
Reward for Investment	Reward is the payment of dividend.	Reward is the payment of interest.

82. Distinguish between Reserve Capital and Capital Reserve.

Basis	**Reserve Capital**	**Capital Reserve**
Meaning	It refers to that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purposes of the company being wound up.	It refers to those amounts, which aren't regarded as free for distribution by way of dividend through profit and loss account.

83. What is Securities premium Reserve? (Sec. 52(2) of Companies Act 2013) State the purposes for which Securities premium Reserve can be used.

Ans. When shares are issued at an amount more than the face value of share, they are said to be issued at premium. According to Companies Act, the amount of premium has to be credited to Securities premium Reserve account. It can be used only for the following purposes.

(a) To buy-back of own shares
(b) To issue fully paid bonus shares.
(c) To write off preliminary expenses.
(d) To write off discount/expenses on issue of debentures
(e) To pay the premium on the redemption of preference shares or debentures of the company.

84. What is one Person Company?

Ans. According to Section 2(62) of Companies Act 2013, One person company is a company which has only one member.

85. What is the maximum number of shareholders in a Private Company?

Ans. The maximum number of Shareholders in a Private company is 200.

<u>ISSUE AND REDEMPTION OF DEBENTURES</u>

86. Define Debenture.

Ans. According to Section 2(30) of the Companies Act 2013 "Debenture" includes debenture stock, bonds or any other instrument of a company **evidencing a debt**, whether constituting a charge on assets of the company or not.

87. Explain various types of debentures.

(a) **<u>On the basis of Redemption</u>**

(i) **Redeemable Debentures**- These are those debentures which are repayable after a specified period either in lump sum or in installments.

(ii) **Irredeemable**: These debentures are not redeemable during lifetime of the company.

(b) **<u>On the basis of Conversion</u>**

(i) **Fully convertible(FCD)-** these are those debentures where the whole amount is to be converted in equity shares.

(ii) **Partly convertible (PCD) -** these are those debentures where a part of the amount of debentures is to be converted in equity shares.

(c) **<u>On the basis of registration:</u>**

(i) **Registered Debentures**- these are those debentures that are paid to the person whose names appear in the register of debenture holder. These can be transferred only by executing a transfer deed.

(ii) **Bearer Debentures**- These debentures are transferred by mere delivery. Interest is paid to the persons who produce the interest coupon.

(d) **<u>On the basis of priority/order of payment</u>**

(i) **First Debentures**- These are those debentures which are paid first before any payment is made to another type of debentures.

(ii**) Second Debentures-** There are those debentures which are paid after first debentures are paid.

(e) **<u>On the basis of security</u>**

(i) **Secured/mortgage debentures**- These debentures are secured by assets of the company.

(ii) **Unsecured debentures**: These have no security

88. What is meant by issue of debentures as a collateral security? What entry is passed for the same?

Ans, Collateral security means additional security. When debentures are issued as additional or subsidiary security in addition to prime security while taking a loan from bank they are termed as issue of debentures as collateral security.
Debenture Suspense a/c Dr.
To % debentures A/c

89. What is nature of interest of debentures?
Ans. It is an expense. Its charged to P & L account. It's a nominal account.

90. What is coupon rate?
Ans. It is the rate of interest payable on debentures.

91. Why would an investor prefer to invest in shares of a company rather than its debentures?
Ans. He may do so to earn higher dividends or to enjoy voting rights and Capital appreciation.

92. Is it true that interest is payable on debentures only when a company makes profit?
Ans. No it is a charge and paid even when there are losses.

93. Is interest paid on debentures issued as a collateral security?
Ans. No, because the lender is holding the debentures only as a security for the loan.

94. What do you understand by redemption of debentures out of profits?
Ans. It means amount is utilized out of profits for repayment of debenture holder and full amounts transferred to DRR from profits.

95. What do you understand by redemption of debentures out of capital?
Ans. When debentures are redeemed without adequate profits being transferred from P&L Appropriation account to DRR at time of redemption, it is called redemption of debentures out of capital.

96. What are the provisions of the Companies Act 2013 regarding creation of DRR?
Ans. Sec 71(4) of the Companies Act 2013 provides that when debentures are to be redeemed out of Capital, 25% of the Face Value of Debentures should be transferred to DRR before the beginning of the redemption.

97. What is Rule 18(7) of the Companies Rules 2014 regarding Debenture Redemption Investment?
Ans, Rule 18(7) of the Companies Rules 2014requires companies to invest 15% of the value of debentures to be redeemed by 31st March of the next year in specified securities on or before 30th April of the year.

98. Which companies are exempted from creating DRR?
Ans.(i)All India Financial Institutions
(ii) Banking Companies
(iii) Any Financial institutions regulated by RBI.

99. Give 2 sources for redemption of debentures.
Ans. 1. Out of profits.
2. Out of fresh proceeds of capital.

100. What is DRR?
Ans. DRR is reserve created of profits for the purpose of redemption of debentures

101. The balance of DRR a/c is transferred to …………?
Ans. General Reserve.

102. When Debentures of Rs.1,00,000 are to be redeemed out of Capital then state the minimum amount to be transferred to DRR?
Ans. 25% of the Nominal Value ie, Rs. 25,000

103. When Debentures of Rs.1,00,000 are to be redeemed out of profits then state the minimum amount to be transferred to DRR?
Ans. 100% of the Nominal Value ie, Rs. 1,00,000.

104. Operating Ratio 86.17%. Calculate Operating profit Ratio.
Ans. 100- 86.17 = 13.83%

105. Operating Profit ratio is 77%.Calculate Operating Ratio.

Ans. 100- 77 = 23%

PART- B ANALYSIS OF FINANCIAL STATEMENTS

106.What do you understand by Financial statements?.

Financial statements are the means of communicating accounting information, which is generated in the various accounting processes to the external users of accounts. This includes income statements and positionstatement.

107.What do you mean by financial statements analysis?

Financial analysis is the systematic numerical calculation of the relationship of one financial fact with the otherto measure profitability, operational efficiency, solvency and the growth potential of the business.

108.What are the objectives /purpose/significance/importance of Financial analysis?

(i) To measure the enterprises short-term solvency.
(ii) To measure the enterprises long-term solvency.
(iii) To measure the enterprises operating efficiency and profitability.
(iv) To compare intra-firm position, inter-firm position within industry.
(v) Judging the earning capacity or profitability

109. Who are the parties interested in the analysis of financial statements? List their interests.

S.No	Parties	Interest
1	Creditors	i) To determine whether the amount owing to them will be paid when due. ii) To ensure liquidity in the firm.
2	Financial Institutions	i) To determine whether the principal amount owing to them will be paid when due. ii)Whether firm is capable of making payment of interest regularly iii) To ensure solvency of the firm.
3	Potential Investor	i) They have an interest operational efficiency and profit earning capacity of the business unit. ii) Safety and security of their investments.
4	Present Investors/ Shareholders	i) To determine whether they should buy, hold or sell their shares. ii) They want to know about the profitability and future prospects of the enterprise.
5	Management	To consider: - i)Short-term solvency ii)Long-term solvency iii)Profitability in relation tom turnover iv)Profitability in relation to investment. v) Effective utilization of resources.
6	Worker/Employees/ Trade Union	i) They are interested in profitability of the business ii) To ensure regular wages and additional benefits.

110.Explain the limitations of financial statement analysis.

(a) **Ignore the qualitative elements:** - financial statements are confined top monetary matters only, the qualitative aspects of management, quality of labour force, public relations are ignored.

(b**) Not free from bias**: - In many situations of accounting, certain choices to be made e.g. methods of depreciation, stock valuation, etc. Since the subjectivity is inherent, in personal judgments are not free from bias.

(c) **Ignores the price level changes**: - the results shown by financial statements may be misleading, if price level changes have not been accounted for. The ratios may improve with increase with price, whereas the actual efficiency may not improve. Change in price effect cost of production, sales and value of assets and a consequence comparability of ratio also suffer.

(d) **Financial statements are affected by window dressings:** - the managements displays rosy picture of the enterprise through financial statements. Sometimes material information is concealed. Financial sometime contain false information. Sales may be over valued and certain purchases may not be shown excellent profits.

111.State the tools of financial statement analysis.

(a) Comparative statements
(b) Common size statements
(c) Trend analysis
(d) Ratio analysis
(e) Cash flow statement
(f) Funds Flow Statement

CASH FLOW STATEMENT

112.Classify the following into cash flows from operating activities, investing activities and financing activities.
i) Received cash from debtors
ii) Issue of shares for cash.
Ans. i. Operating activity.
ii. Financing activity.

113. Mutual Fund Company receives a dividend of Rs.25 lakhs on its investments in other Company's shares. Why is it a cash inflow from operating activities for this company?
Ans, Because investment is principle revenue producing activity of a mutual fund.

114. Interest received by a finance company or bank is classified under which kind of activity while preparing cash flow statement?
Ans. Operating activity because interest is the income from principal revenue producing activities.

115. Interest received by a trading enterprise on its investment is classified under which kind of activity while preparing cash flow statement?
Ans. Investment Activity

116. Payment of income tax is classified under which kind of activity while preparing cash flow statement?
Ans. Operating Activities.

117. Dividend paid by a trading company is classified under which kind of activity while preparing cash flow statement?
Ans. Financing activity.

118. Classify the following into operating, investing and financing activities:
i) Sale of goods
ii) Purchase of machinery
Ans i) Operating activity.
ii) Investing activity.

119. Classify the following into operating, investing and financing activities:
i) Paid to creditors
ii) Receipt of dividend
Ans i) Operating activity.
ii) Investing activity.

120. Classify the following into operating, investing and financing activities:
i) Purchase of treasury bills(investment)
ii) Redemption of debentures
Ans i) Investing activity.
ii) Financing activity.

121. Classify the following into cash inflows from investing/financing activities while preparing a cash flow statement:

i) Redemption of preference shares.
ii) Sale of fixed assets
Ans i) Financing activity
ii) Investing activity.

122. State whether conversion of debentures into equity shares by a financing company will result in inflow, outflow or no flow of cash.
Ans. No flow because no item affect the cash.

123. Dividend paid by a finance company is classified under which kind of activity when preparing Cash Flow Statement.
Ans. Financing Activities.

124. State whether the payment of cash to creditors will result in inflow, outflow or no flow of cash
Ans. Out flow.

125. Dividend by a manufacturing company is classified under which kind of activity while preparing cash flow statement.
Ans. Financing Activities.

126. State whether depreciation charged by a company will result in inflow, outflow or no flow of cash.
Ans. No flow.

127. Interest paid by an investing company will come under which activity while preparing cash flow statement?
Ans. Operating Activity.

128. State whether the purchase of goods on credit will result in inflow, outflow or no flow of cash.
Ans. No flow of cash.

129. In which activity will you include the payment of interest on loan by a manufacturing company while preparing a cash flow statement.
Ans. Financing Activity

130. When is interest received considered as financing activity?
Ans. Interest received on Cash-in-arrears is considered as financing activity.

131. When is dividend received considered as an operating activity?
Ans. Dividend received by Financial enterprise is considered as an operating Activity.

132. Classify the following into Operating, Investing or Financing Activities while preparing a Cash Flow Statement:
(i) Interest on loan paid by a trading firm Rs.12,000
(ii) Sale of goods Rs.5,00,000.
(iii) Receipt of Debenture interest by a Trading Company Rs.15,000.
Ans. i) Financing
ii) Operating
iii) Investing

133. State which of the following would result in inflow/outflow of funds if the funds were defined as cash:
(i) Purchase of goods for cash.
(ii) Purchase of building against a long term loan.
(iii) Raising short term loan.
(iv) Issuance of dividend in the form of Share Capital.
(v) Sale of fixed assets(book value Rs.500) at a loss of Rs.30.
(vi) Cash paid to creditors.
Ansi) Outflow ii) No flow iii) Inflow iv) No flow v) Inflow vi) Outflow

134. What is meant by Cash Flow Statement?

It is a statement that shows the information about the enterprise's cash receipts (cash inflows) and payments (Cash outflows) from one accounting period to another. For this purpose, the cash flows are divided into Operating, Investing and Financing activities.

135. Explain the objectives of Cash Flow statement.

a) **Highlighting cash flow from recurring activities:** this statement deals with cash generated from recurring activities or loss sustained.
b) **Cash flow information helps in planning:** all business activities are revolving around cash, once the volume of cash is known, it becomes easy to plan how much cash should be raised from outside source to cover the cash requirement in various investment projects.
c) **Dividend decision:** dividend once declared by the company, it becomes a current liability and should be paid within 42 days. Cash flow statement help to pay dividend liability.
d) **Prediction of sickness:** Continuous cash loss is a symptom of sickness. It also helps in preparing cash budgets.

136. Give four example of cash flow from operating activities.

(a)Cash receipt from sale of goods and services. (b) Cash receipt from royalty, fees, commission, and other revenues. (c) Cash payments to suppliers of inputs and services used. (d) Cash payment to and on behalf of employees.

137. Give any two uses of investing activities.

(i) Cash payment to acquire fixed assets including intangible Assets..
(ii) Purchasing Non Current Investments.

138. What are the limitations of Cash Flow Statement?

(ii)It ignores Non cash transactions e.g. Issue of shares against purchase of fixed assets and issue of shares for Consideration other than cash.
(ii) It is historical in nature.

139. What is meant by cash equivalent?

Cash equivalent means short term and highly liquid investments which can be immediately converted into known amount of cash and they present insignificant risk of any change in values. Generally investment having maturity value of three months or less comes under the category of cash equivalents.

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