NABARD Grade A Finance Officer 2023 Phase II Previous Year Paper

Answer Key & Detailed Solutions

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Question 1

Which of the following is nonverbal communication?

OPTIONS

(A) Phonetics

(B) Syntax

(C) Haptics

(D) Semantics

(E) None of the above

CORRECT ANSWER: **Haptics**

EXPLANATION:

Non-verbal communication involves the transmission of messages without the use of spoken or written words. Haptics, as a form of non-verbal communication, refers to communication through touch. It includes physical contact such as handshakes, hugs, or other tactile interactions. Haptics play a crucial role in conveying emotions, intentions, and information in various social and cultural contexts.

Question 2

If Selling Price is 9 per unit, variable cost is 5 per unit and fixed cost is 100000, calculate PV ratio?

OPTIONS

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(A) 50%

(B) 40%

(C) 44.44%

(D) 55.55%

(E) 60%

CORRECT ANSWER: 44.44%

EXPLANATION:

PV ratio = Contribution/ Sales = 44.44%

Rs. 4 / Rs. 9 * 100

Contribution = Selling Price – Variable cost

Rs. 9- Rs. 5 = Rs. 4

Question 3

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Find the current ratio of B limited data is as follows:

Land & Building: 15,00,000

Preliminary Expenses: 1,50,000

Cash: Rs.100,000

Accounts Receivables: Rs.900,000

Inventory: Rs.10,00,000

Bank Overdraft: Rs. 900,000

Trade Creditors: 180,000

Debentures: 12,00,000

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OPTIONS

(A) 2

(B) 1.85

(C) 2.8

(D) 1.9

(E) None of the above

CORRECT ANSWER: 1.85

EXPLANATION:

Current Ratio (CR) = Current Assets/ Current Liabilities

As such CR at present is = 20,00,000/1080000

= 1.85

Current Assets:

Cash + Accounts Receivables + Inventory

=100,000 + 900,000 + Rs.10,00,000

= Rs. 20,00,000

Current Liabilities:

Bank Overdraft + Trade Creditors

=Rs. 900,000 + 180,000

= Rs. 10,80,000

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Question 4

What does the term "Vasudeva Kutumbakam" mean?

OPTIONS

(A) Unity in Diversity

(B) World is One Family

(C) Harmony in Nature

(D) Peaceful Coexistence

(E) Global Brotherhood

CORRECT ANSWER: **World is One Family**

EXPLANATION:

"Vasudeva Kutumbakam" is a Sanskrit phrase that translates to "World is One Family." It reflects the ancient Indian philosophy of interconnectedness and the idea that the entire world is a single family, emphasizing unity, compassion, and the shared destiny of all living beings.

Question 5

Net Sales = 40,00,000 (20 % GP Element) out of which 40% is on credit. Opening Receivables & closing receivables are 120,000 & 3,40,000 respectively. Calculate the receivables turnover ratio of the company.

OPTIONS

(A) 6.96 times

(B) 10.43 times

(C) 17.39 times

(D) 4.71 times

(E) 8.62 times

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CORRECT ANSWER: **6.96 times**

EXPLANATION:

Credit sales/Average accounts receivables

16,00,000 / 2,30,000

=6.96 times

Credit sales = 40,00,000(total sales) * 40%

=16,00,000

Average accounts receivables = 1,20,000 (opening debtors) + 3,40,000 (Closing debtors) / 2

= 230,000.

Question 6

Which of the following is considered an intangible asset?

OPTIONS

(A) Land

(B) Buildings

(C) Capital WIP

(D) Goodwill

(E) Loose tools

CORRECT ANSWER: **Goodwill**

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EXPLANATION:

Intangible assets are non-physical assets that lack a physical substance but hold value for a company. Goodwill is an intangible asset that represents the positive reputation, customer loyalty, and other non-physical qualities that contribute to a business's value. Unlike tangible assets such as land, buildings, and machinery, goodwill is not a physical asset but is crucial in assessing a company's overall worth.

Question 7

In which of the following cases should an investor buy a bond?

OPTIONS

(A) Intrinsic Value Market Value

(B) Intrinsic Value > Market Value

(C) Intrinsic value redemption value

(D) Market Value Redemption Value

(E) Market Value > Redemption Value

CORRECT ANSWER: **Intrinsic Value > Market Value**

EXPLANATION:

When the intrinsic or calculated value of a bond is more than its market value, it means the bond is undervalued by the market and hence an investor should buy it as the market value will increase to reflect the intrinsic value over time and lead to gains to the investor.

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Question 8

What would be the break even units if the Fixed Cost is Rs.1,00,000 and PV ratio is 25%. The company sells its product at Rs.60 per unit.

OPTIONS

(A) 2222 Units

(B) 8889 Units

(C) 3500 Units

(D) 6667 Units

(E) 7000 Units

CORRECT ANSWER: 6667 Units

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EXPLANATION:

BEP in Units = Fixed Cost / Contribution per unit

1,00,000/15

=6666.66 (6667 Units approx.)

4,00,000 / 60= 6667

Contribution per unit = SPPU * PV ratio

= 60 Rs * 25%

= 15 Rs

Alternatively,

Calculated BEP in Value:

FC/ PV ratio

1,00,000 / 25%= 4 lakhs sales

Now divide the BEP sales value by selling price per unit to arrive at BEP in units.

4,00,000/60 = 6666.66

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Question 9

Accounts relating to income, revenue, gain expenses, and losses are termed as:

OPTIONS

(A) Real Accounts

(B) Personal Accounts

(C) Nominal Accounts

(D) Artificial Personal Accounts

(E) None of above

CORRECT ANSWER: **Nominal Accounts**

EXPLANATION:

Accounts relating to income, revenue, expenses, and losses are termed as Nominal Accounts. Nominal accounts are temporary accounts that are used to record the financial performance of a business during a specific accounting period, and their balances are closed at the end of each accounting period to determine the net profit or loss.

Question 10

What duties are taxes on intra-State supplies?

OPTIONS

(A) CGST

(B) SGST

(C) CGST and SGST

(D) IGST

(E) CGST and IGST

CORRECT ANSWER: **CGST and SGST**

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EXPLANATION:

For taxes on supplies within the same state (intra-State supplies), both the Central Government and the State Government levy taxes. This is known as Central Goods and Services Tax (CGST) and State Goods and Services Tax (SGST) respectively.

Question 11

Direction:

Refer to the following information to answer the next 4 questions (Q 11 to Q 14)

The Companies Act 2013 had introduced several new provisions which changed the face of Indian corporate business. One of such new provisions was the Corporate Social Responsibility (CSR). The concept of CSR rests on the ideology of give and take. Companies take resources in the form of raw materials, human resources etc. from the society. By performing the task of CSR activities, the companies are giving something back to the society.

CSR is the integration of socially beneficial programs and practices into a corporation's business model and culture. India is one of the first countries in the world to make CSR mandatory for companies following an amendment to the Companies Act, 2013 in 2014. Under the Companies Act, businesses can invest their profits in areas such as promoting rural development in terms of healthcare, sanitation, education including skill development, environmental sustainability, etc.

As per the provisions for CSR given under Companies Act 2013, how much has to be spent on CSR by eligible entities?

OPTIONS

(A) 1.5% of the average net profits of three immediately preceding years

(B) 2.0% of the average net profits of three immediately preceding years

(C) 1.5% of the average turnover of two immediately preceding years

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(D) 2.0% of the average administrative overheads of two immediately preceding years

(E) 2.5% of the average turnover of two immediately preceding years

CORRECT ANSWER: 2.0% of the average net profits of three immediately preceding years

EXPLANATION:

As per the provisions of this section, a Company having:

- Net worth of Rs.500 crore or more, or
- Turnover of Rs.1000 crore or more or
- net profit of Rs.5 crore or more in previous financial year, should:
- Constitute a CSR Committee (consisting of 3 or more directors of which at least 1 is independent director) and **spend at least 2% of the average net profits of three immediately preceding years** on CSR activities (companies which spend any amount in excess of their CSR obligation in a financial year can set off the excess amount towards their CSR obligations in subsequent financial years).

Question 12

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CSR is the integration of socially beneficial programs and practices into a corporation's business model and culture. India is one of the first countries in the world to make CSR mandatory for companies following an amendment to the Companies Act, 2013 in 2014. Under the Companies Act, businesses can invest their profits in areas such as promoting rural development in terms of healthcare, sanitation, education including skill development, environmental sustainability, etc.

The concept of Corporate Social Responsibility (CSR) is based on which of the following theory?

OPTIONS

(A) Conservative Theory

(B) Stakeholder Theory

(C) Triple Profit Theory

(D) Human Rights Theory

(E) Philanthropy Theory

CORRECT ANSWER: **Stakeholder Theory**

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EXPLANATION:

Edward Freeman defines, 'a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives.' Thus, the term stakeholder includes (apart from shareholders), but not limited to, customers, employees, suppliers, community, environment and society at large.

These and a host of other such ideas have given rise to the concept of Corporate Social Responsibility (CSR). The concept of CSR goes beyond charity or philanthropy and requires the company to act beyond its legal obligations and to integrate social, environmental and ethical concerns into its business process.

Question 13

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Which section of the Companies Act 2013 deals with the provisions of Corporate Social Responsibility?

OPTIONS

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(A) Section 135

(B) Section 136

(C) Section 137

(D) Section 138

(E) Section 139

CORRECT ANSWER: Section 135

EXPLANATION:

The CSR provisions are covered under Section **135** and **Schedule VII** of the Companies Act, 2013.

As per the provisions of this section, a Company having Net worth of

· Rs.500 crore or more, or

· Turnover of Rs.1000 crore or more or

· net profit of Rs.5 crore or more

in previous financial year, should:

· Constitute a CSR Committee (consisting of 3 or more directors of which at least 1 is independent director) and

· spend at least 2% of the average net profits of three immediately preceding years on CSR activities (companies which spend any amount in excess of their CSR obligation in a financial year can set off the excess amount towards their CSR obligations in subsequent financial years).

Question 14

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Direction:

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For up to how many years can the excess CSR spending be set off against the CSR expenditure of the succeeding financial years?

OPTIONS

(A) immediately succeeding one financial year

(B) immediately succeeding two financial years

(C) immediately succeeding three financial years

(D) immediately succeeding four financial years

(E) immediately succeeding five financial years

CORRECT ANSWER: **immediately succeeding three financial years**

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EXPLANATION:

The excess CSR spending can be set off against the required 2% CSR expenditure up to the immediately succeeding three financial years.

Question 15

Direction:

Refer to the following information to answer the next 4 questions (Q15 to Q18)

Depreciation is an accounting method used to allocate the cost of a tangible asset over its useful life. Tangible assets, such as machinery, vehicles, buildings, and equipment, gradually lose their value over time due to factors such as wear and tear, obsolescence, or technological advancements. Depreciation reflects this decrease in value and helps businesses accurately represent the true cost of using an asset in their financial statements.

There are various methods of calculating depreciation, each method has its own set of rules and assumptions, and the choice of method often depends on factors such as the nature of the asset and its expected pattern of use.

Depreciation is a crucial concept in accounting that helps businesses accurately account for the wear and tear of tangible assets, ensuring that financial statements provide a more realistic picture of the costs associated with using these assets over their useful lives.

Depreciation remains constant according to which method?

OPTIONS

(A) Sum of years digit

(B) Units of production

(C) Declining Balance

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(D) Straight Line Method

(E) None of the above

CORRECT ANSWER: **Straight Line Method**

EXPLANATION:

It is the least difficult method for working out the deficiency of worth of a resource after some time. The straight-line is determined by splitting the distinction between a resource's expense and its normal rescue esteem by the number of years it is relied upon to be utilized.

Question 16

Direction:

Refer to the following information to answer the next 4 questions (Q15 to Q18)

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Depreciation is a crucial concept in accounting that helps businesses accurately account for the wear and tear of tangible assets, ensuring that financial statements provide a more realistic picture of the costs associated with using these assets over their useful lives.

Under which method of Depreciation, the written down value of the asset is always more than zero:

OPTIONS

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(A) SLM

(B) WDV

(C) Sum of years digit

(D) Units of production

(E) Any of the above

CORRECT ANSWER: WDV

EXPLANATION:

Under the written down value (WDV) method of depreciation, the WDV of the asset is always more than zero.

The WDV of an asset is the value of the asset after deducting the accumulated depreciation from its original cost. Under the WDV method, depreciation is charged at a fixed percentage on the WDV of the asset each year, which means that the WDV will decrease each year.

However, the WDV can never be zero or less than zero because the asset still has some value, even if it has been fully depreciated.

Question 17

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Direction:

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Depreciation is a crucial concept in accounting that helps businesses accurately account for the wear and tear of tangible assets, ensuring that financial statements provide a more realistic picture of the costs associated with using these assets over their useful lives.

Which among the following method is also called as Original cost method, Fixed Installment method or Equal Installment method?

OPTIONS

(A) SLM

(B) WDV

(C) Sum of years digit

(D) Units of production

(E) Any of the above

CORRECT ANSWER: SLM

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EXPLANATION:

SLM stands for Straight Line Method. It is also called the Original Cost Method, Fixed Installment Method, or Equal Installment Method. Under this method, the depreciation expense is allocated equally over the useful life of the asset. This means that the same amount of depreciation expense is charged to the income statement each year.

Question 18

Direction:

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Depreciation is a crucial concept in accounting that helps businesses accurately account for the wear and tear of tangible assets, ensuring that financial statements provide a more realistic picture of the costs associated with using these assets over their useful lives.

Which method is a common accounting method of depreciation wherein an asset's value depreciates at twice the rate it would under straight-line depreciation?

OPTIONS

(A) Sum of years digit

(B) Units of production

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(C) Declining Balance

(D) Double Decline Balance

(E) None of the above

CORRECT ANSWER: **Double Decline Balance**

EXPLANATION:

The double declining balance (DDB) depreciation method is an approach to accounting that involves depreciating certain assets at twice the rate outlined under straight-line depreciation. This results in depreciation being the highest in the first year of ownership and declining over time. Given the nature of the DDB depreciation method, it is best reserved for assets that depreciate rapidly in the first several years of ownership, such as cars and heavy equipment.

Question 19

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Direction:

Refer to the following information to answer the next 4 questions (Q 19 to Q 21)

A body constituted under the provisions of the Companies Act, 2013, established as an independent authority to regulate the auditing profession and the Indian Accounting Standards.

The body is responsible for making recommendations regarding accounting and auditing standards. It also oversees the Quality of Service provided by the accounting and audit professions.

It is expected that the body's functioning would result in improved domestic and foreign investments, improved economic growth, assistance in the development of the audit profession and supporting the globalization of business through compliance with international practices.

The aim of the Central Government in this regard appears to be:

• Setting up of a separate and independent regulatory body to assist in the framing and enforcement of legislation relating to accounting & auditing and

• Improving investor and public confidence in the financial reporting of an entity.

The need for this authority arose as a response to various corporate scams in recent times. The body has the responsibilities to make recommendations on the foundation and laying down of accounting and auditing policies and standards, Monitor and enforce the compliance of the accounting standards and auditing standards, to oversee the quality of service of the professionals (such as auditors) and suggest measures required for improvement in the quality of service.

Which body has these roles and responsibilities mentioned in the above para?

OPTIONS

(A) ICAI

(B) NFRA

(C) MCA

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(D) ICSI

(E) IASB

CORRECT ANSWER: **NFRA**

EXPLANATION:

The National Financial Reporting Authority (NFRA) is a regulatory body in India established under Section 132 of the Companies Act, 2013. Its primary objectives are to assist in the formulation and enforcement of accounting and auditing standards and to enhance investor and public confidence in financial reporting. NFRA was set up in response to various corporate scams to strengthen regulatory oversight.

Question 20

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Under which section of the Companies Act 2013 NFRA is constituted?

OPTIONS

(A) Section 131

(B) Section 135

(C) Section 133

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(D) Section 132

(E) Section 130

CORRECT ANSWER: **Section 132**

EXPLANATION:

The National Financial Reporting Authority (NFRA) was constituted on 01st October,2018 by the Government of India under Sub Section (1) of section 132 of the Companies Act, 2013. To continuously improve the quality of all corporate financial reporting in India.

Question 21

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In how many days do a statutory Auditor of a company needs to report fraud/suspected fraud?

OPTIONS

(A) One Day

(B) Two Days

(C) Sixty Days

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(D) One month

(E) Two months

CORRECT ANSWER: **Two Days**

EXPLANATION:

Statutory Auditors are under a mandatory obligation to report fraud or suspected fraud if they observe suspicious activities, transactions or operating circumstances in a company that indicate reasons to believe that an offence of fraud is being or has been committed against the company by its officers or employees. In such an event, the Statutory Auditor shall initiate the steps prescribed under

Rule 13 of Companies (Audit and Auditors) Rules 2014 which begins with reporting the matter to the Board/Audit Committee within TWO days of his/her knowledge of the fraud.

Question 22

According to the stipulations for reporting fraud, when is the Statutory Auditor required to forward a report to the Secretary, Ministry of Corporate Affairs, Government of India?

OPTIONS

(A) One lakh rupee or more

(B) Ten lakhs rupee or more

(C) Fifty lakhs rupee or more

(D) One crore rupee or more

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(E) Five crores rupee or more

CORRECT ANSWER: **One crore rupee or more**

EXPLANATION:

The Statutory Auditor forwards a report to the Secretary, Ministry of Corporate Affairs, Government of India, in the case of reporting fraud involving or expected to involve individually an amount of one crore rupees or more, if no reply or observations are received from the Board/Audit Committee within 45 days.

Question 23

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Direction:

Refer to the following information to answer the next 4 questions (Q 23 to Q 26)

A budget is a financial blueprint that plays a fundamental role in the strategic management of finances for individuals, businesses, and governments. It serves as a comprehensive plan, projecting anticipated income and allocating funds to various expenses over a specific period, typically a fiscal year. The primary objectives of a budget are multi-faceted. It serves as a planning tool, enabling the establishment of financial goals and the systematic allocation of resources to meet these objectives. Moreover, budgets provide a framework for financial control by allowing individuals and organizations to compare actual financial performance against the budgeted figures, facilitating adjustments and corrective measures as needed.

Beyond control and planning, budgets foster financial accountability and transparency. They create a structured approach to financial decision-making, aligning expenditures with priorities and strategic objectives. A well-constructed budget encourages financial discipline by setting clear expectations and promoting responsible resource management. It also serves as a communication tool, ensuring that stakeholders within an organization are on the same page regarding financial expectations and constraints.

Furthermore, budgets contribute to emergency preparedness by allocating funds for unforeseen circumstances, thereby enhancing financial resilience. They facilitate goal alignment, directing financial resources toward achieving specific targets, whether it be saving for a major purchase, reducing debt, or investing in growth opportunities. In addition, budgets support effective debt management by incorporating debt repayment into the financial plan. They also play a crucial role in performance evaluation, allowing for regular assessments of financial results and the adjustment of strategies and goals accordingly.

There can be a variety of budget. Name the budget which relates to a particular function of the business.

OPTIONS

(A) Flexible Budget

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(B) Fixed Budget

(C) Functional Budget

(D) Budget Centre

(E) None of the above

CORRECT ANSWER: **Functional Budget**

EXPLANATION:

Functional Budgets – is one which relates to a particular function of the business. Example, Sales Budget, Production Budget among others.

Question 24

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Direction:

Refer to the following information to answer the next 4 questions (Q 23 to Q 26)

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There is one budget which is prepared as a consolidated summary of all the functional budgets.

Identify it among the following:

OPTIONS

(A) Flexible Budget

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(B) Fixed Budget

(C) Functional Budget

(D) Budget Centre

(E) Master Budget

CORRECT ANSWER: **Master Budget**

EXPLANATION:

Functional Budgets – is one which relates to a particular function of the business. Example, Sales Budget, Production Budget among others. MASTER BUDGET – when all the functional budgets have been prepared, these are summarised into a master budget. It is a consolidated summary of all the functional budgets. There are 2 parts of master budgets:

- Operating Budget – budgeted profit and loss account, and
- Financial Budget – Budgeted Balance Sheet

Question 25

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Direction:

Refer to the following information to answer the next 4 questions (Q 23 to Q 26)

A budget is a financial blueprint that plays a fundamental role in the strategic management of finances for individuals, businesses, and governments. It serves as a comprehensive plan, projecting anticipated income and allocating funds to various expenses over a specific period, typically a fiscal year. The primary objectives of a budget are multi-faceted. It serves as a planning tool, enabling the establishment of financial goals and the systematic allocation of resources to meet these objectives. Moreover, budgets provide a framework for financial control by allowing individuals and organizations to compare actual financial performance against the budgeted figures, facilitating adjustments and corrective measures as needed.

Beyond control and planning, budgets foster financial accountability and transparency. They create a structured approach to financial decision-making, aligning expenditures with priorities and strategic objectives. A well-constructed budget encourages financial discipline by setting clear expectations and promoting responsible resource management. It also serves as a communication tool, ensuring that stakeholders within an organization are on the same page regarding financial expectations and constraints.

Furthermore, budgets contribute to emergency preparedness by allocating funds for unforeseen circumstances, thereby enhancing financial resilience. They facilitate goal alignment, directing financial resources toward achieving specific targets, whether it be saving for a major purchase, reducing debt, or investing in growth opportunities. In addition, budgets support effective debt management by incorporating debt repayment into the financial plan. They also play a crucial role in performance evaluation, allowing for regular assessments of financial results and the adjustment of strategies and goals accordingly.

Based on level of activity or capacity utilization, there is a type of budget which is prepared keeping in mind one level of output. It is a budget which is designed to remain unchanged irrespective of the level of activity attained. Identify it among the following:

OPTIONS

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(A) Flexible Budget

(B) Fixed Budget

(C) Functional Budget

(D) Budget Centre

(E) Master Budget

CORRECT ANSWER: **Fixed Budget**

EXPLANATION:

Based on level of activity or capacity utilization, budgets are classified as follows:

Fixed Budgets – is prepared keeping in mind one level of output. It is a budget which is designed to remain unchanged irrespective of the level of activity attained. If actual output differs from the budgeted level of output, variances arise.

Flexible Budgets – It is designed to change in relation to the level of activity attained. Flexible budgets are prepared in those companies where it is extremely difficult to forecast output and sales with accuracy.

Question 26

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Direction:

Refer to the following information to answer the next 4 questions (Q 23 to Q 26)

A budget is a financial blueprint that plays a fundamental role in the strategic management of finances for individuals, businesses, and governments. It serves as a comprehensive plan, projecting anticipated income and allocating funds to various expenses over a specific period, typically a fiscal year. The primary objectives of a budget are multi-faceted. It serves as a planning tool, enabling the establishment of financial goals and the systematic allocation of resources to meet these objectives. Moreover, budgets provide a framework for financial control by allowing individuals and organizations to compare actual financial performance against the budgeted figures, facilitating adjustments and corrective measures as needed.

Beyond control and planning, budgets foster financial accountability and transparency. They create a structured approach to financial decision-making, aligning expenditures with priorities and strategic objectives. A well-constructed budget encourages financial discipline by setting clear expectations and promoting responsible resource management. It also serves as a communication tool, ensuring that stakeholders within an organization are on the same page regarding financial expectations and constraints.

Furthermore, budgets contribute to emergency preparedness by allocating funds for unforeseen circumstances, thereby enhancing financial resilience. They facilitate goal alignment, directing financial resources toward achieving specific targets, whether it be saving for a major purchase, reducing debt, or investing in growth opportunities. In addition, budgets support effective debt management by incorporating debt repayment into the financial plan. They also play a crucial role in performance evaluation, allowing for regular assessments of financial results and the adjustment of strategies and goals accordingly.

Which among the following is a type of budgeting technique where the previous year's figures are not used as a base for preparing next year's budgets.

OPTIONS

(A) Zero Based Budgeting

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(B) Performance Budgeting

(C) Activity Based Budgeting

(D) Incremental Budgeting

(E) None among the above

CORRECT ANSWER: **Zero Based Budgeting**

EXPLANATION:

In Zero Based Budgeting, the previous year's figures are not used as a base for preparing next year's budgets. Budget figures are developed with zero as the base, which means that the budget will be prepared as if it is being prepared for a new company for the first time. It involves a planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (hence zero base). It is in contrast to Incremental Budgeting, where the next year's budget is prepared keeping the previous year's budget as the base.

Question 27

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Direction:

Read the following passage and answer the next 4 question (Q27-Q30)

Corporate restructuring is an action taken by the corporate entity to modify its capital structure or its operations significantly. Generally, corporate restructuring happens when a corporate entity is experiencing significant problems and is in financial jeopardy. The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The management of the concerned corporate entity facing the financial crunches hires a financial and legal expert for advisory and assistance in the negotiation and the transaction deals.

Usually, the concerned entity may look at debt financing, operations reduction, any portion of the company to interested investors. In addition to this, the need for corporate restructuring arises due to the change in the ownership structure of a company. Such change in the ownership structure of the company might be due to the takeover, merger, adverse economic conditions, adverse changes in business such as buyouts, bankruptcy, lack of integration between the divisions, over-employed personnel, etc.

When two companies decide to combine their operations to achieve synergies and enhance overall efficiency, which corporate restructuring strategy are they likely implementing?

OPTIONS

(A) Partnership

(B) Merger

(C) Demerger

(D) Divestiture

(E) Acquisition

CORRECT ANSWER: **Merger**

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EXPLANATION:

When two companies decide to combine their operations to achieve synergies and enhance overall efficiency, they are likely implementing a merger strategy. Mergers can take various forms, such as horizontal, vertical, or conglomerate mergers, depending on the nature of the combining entities.

Question 28

Direction:

Read the following passage and answer the next 4 question (Q27-Q30)

Corporate restructuring is an action taken by the corporate entity to modify its capital structure or its operations significantly. Generally, corporate restructuring happens when a corporate entity is experiencing significant problems and is in financial jeopardy. The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The management of the concerned corporate entity facing the financial crunches hires a financial and legal expert for advisory and assistance in the negotiation and the transaction deals.

Usually, the concerned entity may look at debt financing, operations reduction, any portion of the company to interested investors. In addition to this, the need for corporate restructuring arises due to the change in the ownership structure of a company. Such change in the ownership structure of the company might be due to the takeover, merger, adverse economic conditions, adverse changes in business such as buyouts, bankruptcy, lack of integration between the divisions, over-employed personnel, etc.

Which corporate restructuring strategy refers to the separation of a business unit or division from its parent company, creating an independent entity with its own ownership and management?

OPTIONS

(A) Merger

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(B) Divestiture

(C) Demerger

(D) Consolidation

(E) All of the above

CORRECT ANSWER: **Demerger**

EXPLANATION:

A demerger, is the separation of a business unit or division from its parent company. This results in the creation of an independent entity with its own ownership and management structure. Demergers are often undertaken to streamline operations or unlock value.

Question 29

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Direction:

Read the following passage and answer the next 4 question (Q27-Q30)

Corporate restructuring is an action taken by the corporate entity to modify its capital structure or its operations significantly. Generally, corporate restructuring happens when a corporate entity is experiencing significant problems and is in financial jeopardy. The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The management of the concerned corporate entity facing the financial crunches hires a financial and legal expert for advisory and assistance in the negotiation and the transaction deals.

Usually, the concerned entity may look at debt financing, operations reduction, any portion of the company to interested investors. In addition to this, the need for corporate restructuring arises due to the change in the ownership structure of a company. Such change in the ownership structure of the company might be due to the takeover, merger, adverse economic conditions, adverse changes in business such as buyouts, bankruptcy, lack of integration between the divisions, over-employed personnel, etc.

_____ is partial or complete disposal by sale, swap, close or bankruptcy of a business entity.

OPTIONS

(A) Merger

(B) Spin-off

(C) Demerger

(D) Divestiture

(E) None of the above

CORRECT ANSWER: **Divestiture**

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EXPLANATION:

Divestiture is partial or complete disposal by sale, swap, close or bankruptcy of a business entity. A divestiture most frequently arises from a decision by management to stop operating a business unit because it is not part of core competency.

A divestiture can also occur if a business unit is considered obsolete following an alliance or acquisition, if the disposal of a group increases the company's resale value or if a court orders a business unit to be sold to boost market competitiveness.

Question 30

Direction:

Read the following passage and answer the next 4 question (Q27-Q30)

Corporate restructuring is an action taken by the corporate entity to modify its capital structure or its operations significantly. Generally, corporate restructuring happens when a corporate entity is experiencing significant problems and is in financial jeopardy. The process of corporate restructuring is considered very important to eliminate all the financial crisis and enhance the company's performance. The management of the concerned corporate entity facing the financial crunches hires a financial and legal expert for advisory and assistance in the negotiation and the transaction deals.

Usually, the concerned entity may look at debt financing, operations reduction, any portion of the company to interested investors. In addition to this, the need for corporate restructuring arises due to the change in the ownership structure of a company. Such change in the ownership structure of the company might be due to the takeover, merger, adverse economic conditions, adverse changes in business such as buyouts, bankruptcy, lack of integration between the divisions, over-employed personnel, etc.

Shares of Vinay Ltd. And Sagar Ltd. are currently traded at Rs.100 and Rs. 20 respectively. Vinay Ltd is acquiring Sagar Ltd and the market price of both the companies is Rs.100 and Rs.20 respectively. What will be the share swap ratio based on market price?

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OPTIONS

(A) 1 share for every 5 share

(B) 5 shares for every 1 share

(C) 1 share for every 10 share

(D) 10 shares for every 1 share

(E) None of the above

CORRECT ANSWER: **1 share for every 5 share**

EXPLANATION:

When the acquiring company **(Vinay Ltd)** acquires the share of Sagar Ltd, the swap ratio will be used to calculate the exchange rate of shares between both companies.

The share swap ratio will be calculated as follows:

= Market price of shares of Sagar Ltd / market price of shares of Vinay Ltd (acquiring company)

= 20/100

= 1/5

For every 1 share of Vinay Ltd (acquiring company), Sagar Ltd needs to give 5 shares.

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