

UNIT – 1: BUSINESS ENVIRONMENT AND INTERNATIONAL BUSINESS

Sub Unit – 1: CONCEPT AND ELEMENTS OF BUSINESS ENVIRONMENT

1. ----- consists of economic conditions, economic policies, industrial policies and economic system.

- A.Business Environment
- B.Economic Environment
- C.Natural environment
- D.None of the above

Answer: B

Explanation: The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro).

2. External environment of business is

- A.Physical
- B.Demographical
- C.Economic
- D.All of these

Answer: D

3. The economic environment of a business includes

- A.Economic system
- B.Economic policies
- C.Economic conditions
- D.All of these

Answer: D

4. An analysis of the external environment enables a firm to identify -

- A.Strengths and opportunities
- B.Strength and weakness
- C.Weakness and threats
- D.Opportunities and threats

Answer: D

Explanation: Opportunities are openings or chances for something positive to happen, but you'll need to claim them for yourself.

Threats include anything that can negatively affect your business from the outside, such as supply chain problems, shifts in market requirements, or a shortage of recruits.

5. Which of the following are the dimensions of the business environment: -

- A. Economic & Social
- B. Technological & Economic
- C. Legal & Social
- D. All of the above

Answer: D

6. Which of the following does not explain the impact of government policy changes on business & industry

- A. Increasing competition
- B. More demanding market customers
- C. Market orientations
- D. Change in agricultural prices

Answer: D

7. Which of the following is not a feature of Business environment

- A. Interrelated Elements
- B. Dynamics
- C. Complexity
- D. Continuous

Answer: D

Explanation: The main features of business environment are:

All the external forces, Specific and general forces, Inter-relation, and Uncertainty:

8. Consumer Protection Act is significant to

- A. Immovable Goods
- B. Movable Goods
- C. Particular Goods and Services
- D. All Goods and Services

Answer: D

9. How many rights does a consumer have under the Consumer Protection Act

- A. 8
- B. 6
- C. 4
- D. 5

Answer: B

10. Under the Consumer Protection Act, the rights of a consumer don't include to be

- A. Safety
- B. Current
- C. Presented
- D. Informed

Answer: C

11. When the seller manipulates the price, it is known as

- A. Caveat Emptor
- B. Unfair trade practices
- C. Restricted trade practices
- D. None of the above

Answer: C

Explanation: Restrictive trade practices are targeted at the consumers who are burdened with restriction and unjustified costs through the practices of the trader. The trader manipulates the price or the conditions of delivery of the product which results in restrictive trade practice. This affects the supply of goods and services in the market and includes:

12. Rights of consumer are protected under _____

- A. Consumer protection 1986
- B. Consumer protection 1990
- C. Consumer protection 1982
- D. Consumer protection 1991

Answer: A

13. The consumer has the right to get compensation against unfair trade practices under right to

- A. Right to choose
- B. Right to seek redressal
- C. Right to safety
- D. Right to safety

Answer: B

Explanation: It means right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers. It also includes right to fair settlement of the genuine grievances of the consumer. Consumers must make complaint for their genuine grievances.

14. Which of the following are the ways and means of consumer protection?

- A. Self-regulation by the business
- B. Business associations
- C. Government
- D. All of the above

Answer: D

15. Which of the following is not an organization working for consumer protection?

- A. Consumer VOICE
- B. Consumer forum
- C. The bureau of Indian standard
- D. Consumer utility & trust society

Answer: B

16. Capitalistic, communistic and Mixed are the types of

- A. Economic System
- B. Social System
- C. Cultural Attitudes
- D. Political System

Answer: A

Explanation: An **economic system**, or **economic order** is a system of production, resource allocation and distribution of goods and services within a society or a given geographic area. It includes the combination of the various institutions, agencies, entities, decision-making processes and patterns of consumption that comprise the economic structure of a given community.



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Sub Unit – 2: INTERNATIONAL BUSINESS

17. The first phase of globalization started around 1870 and ended with

- A. World War I
- B. World War II
- C. The Establishment of GATT
- D. In 1913 when GDP was high

Answer: A

18. IBRD (International Bank for Reconstruction and Development) also known as

- A. Exim Bank
- B. World Bank
- C. International Monetary fund
- D. International Bank

Answer: B

19. Which is the right sequence of stages of Internationalization?

- A. Domestic, Transnational, Global, International, Multinational
- B. Domestic, International, Multinational, Global, Transnational
- C. Domestic, Multinational, International, Transnational, Global
- D. Domestic, International, Transnational, Multinational, Global

Answer: B

20.is the application of knowledge which redefines the boundaries of global business

- A. Cultural Values
- B. Society
- C. Technology
- D. Economy

Answer: C

21. Globalization refers to:

- A. Lower incomes worldwide
- B. Less foreign trade and investment
- C. Global warming and their effects
- D. A more integrated and interdependent world

Answer: D

Explanation: Globalization is the process of interaction and integration among people, companies, and governments worldwide. As a complex and multifaceted phenomenon, globalization is considered by some as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy.

22.is the payment method most often used in International Trade which offers the exporter best assurance of being paid for the products sold internationally.

- A. Bill of Lading
- B. Letter of Credit
- C. Open Account
- D. Drafts

Answer: B

Explanation: A letter of credit or "credit letter" is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make a payment on the purchase, the bank will be required to cover the full or remaining amount of the purchase. It may be offered as a facility.

23. Amalgamation and rapid unification between countries can be identified as

- A. Globalisation
- B. Liberalisation
- C. Socialisation
- D. Privatisation

Answer: a

24. Globalisation has improved in the living structure of

- A. All the people
- B. Workers in developing countries
- C. People in developed countries
- D. None of the above.

Answer: C

Explanation: Globalization is the process of interaction and integration among people, companies, and governments worldwide. As a complex and multifaceted phenomenon, globalization is considered by some as a form of capitalist expansion which entails the integration of local and national economies into a global, unregulated market economy.

25. Which Indian industries have been hit by globalization?

- A. Cement
- B. Jute
- C. Toy making
- D. Information Technology (IT)

Answer: C

Sub Unit – 3: INTERNATIONAL TRADE

26. The Theory of Absolute Cost Advantage is given by

- A. David Ricardo
- B. Adam Smith
- C. F W Taylor
- D. Ohlin and Heckscher

Answer: B

27. The theory of comparative cost advantage is given by

- A. David Ricardo
- B. Adam Smith
- C. F W Taussig
- D. Ohlin and Hecksher

Answer: A

28. Consider the following statements and identify the right ones.

i. A double entry system of record of all economic transactions between the residents of a country and rest of the world is called balance of trade

ii. All transactions related to goods, services or income are classified as capital account.

- A. i only
- B. ii only
- C. both
- D. none

Answer: D

29 Name the two schemes introduced under the new foreign trade policy?

- A. Merchandise Export from India Scheme & Services Export from India Scheme
- B. Services Export from India Scheme & Services Import from India Scheme
- C. Services Import from India Scheme & Merchandise Export from India Scheme
- D. Merchandise Import from India Scheme & Services Export from India Scheme

Answer: A

30. Consider the following statements about the Foreign Trade Policy 2015-20 unveiled on 1st Apr'15.

- A. This policy focuses on boosting exports and create jobs while supporting the Centre's 'Make In India' and Digital India' programs.
- B. The new policy is to create architecture for the Indian economy so that it can gain global competitiveness and promote the diversification of Indian export.
- C. The policy is to move towards paperless working in 24x7 environments.
- D. The policy comes at a time when export growth contracted 15 per cent in February 2014-15, reporting a negative growth for the third consecutive month.

- A. A & B is correct
- B. B & C is correct
- C. A, B & D is correct
- D. All of the above is correct

Answer: D

31. The Indian Government unveiled the new Foreign Trade Policy 2015-20 on ____.

- A. 30th Mar 2015
- B. 31st Mar 2015
- C. 1st April 2015
- D. 30th April 2015

Answer: C

32. Transportation cost of trade affects

- A. pattern of trade
- B. boundaries between tradable and non-tradable goods
- C. Global supply chains
- D. all of the above

Answer: D

33. Which of the following is not a non-tariff barrier?

- A. A quota on apparel.
- B. A tax equal to 12% of value on imported oil.
- C. A voluntary export restraint on cars.
- D. A regulation requiring government agencies to favor domestically producers.
- E. The threat to levy a tariff on imports that are sold at an unfairly low price.

Answer: B

Explanation: A nontariff barrier is a way to restrict trade using trade barriers in a form other than a tariff. Nontariff barriers include quotas, embargoes, sanctions, and levies.

Sub Unit – 4: FOREIGN DIRECT INVESTMENT (FDI)

34. The investment in productive assets and participation in management as stake holders in business enterprises is

- A. FDI
- B. FII
- C. Balance of payment
- D. SDR

Answer: A

Explanation: A **Foreign Direct Investment (FDI)** is an investment in the form of a controlling ownership in a business in one country by an entity based in another country. It is thus distinguished from a foreign portfolio investment by a notion of direct control.

35. The portfolio investment by foreign institutional investors is called

- A. FDI
- B. FII
- C. Balance of payment
- D. SDR

Answer: B

Explanation: A foreign institutional investor (FII) is an investor or investment fund investing in a country outside of the one in which it is registered or headquartered. The term foreign institutional investor is probably most commonly used in India,

36. The foreign direct investment includes

- A. Intellectual Property
- B. Human Resource
- C. Tangible Good
- D. Intangible Goods

Answer: C

37. The three disputes of FDI are over

- A. Concern
- B. Interest
- C. Regard
- D. Hobby

Answer: B

38. More expansion of foreign direct investment can boost

- A. Money circulation
- B. Demand
- C. Employment
- D. Unemployment

Answer: C

39. FDI Confidence Index is released annually by _____?

- A. Grant Thornton
- B. JLL
- C. T. Kearney
- D. IMF

Answer: C

40. What is India's ranking in FDI Confidence Index, 2018?

- A. 4th
- B. 11th
- C. 17th
- D. 21st

Answer: B

41. Ministries will now have to decide on FDI proposals within ____ days of application, w.e.f 6th June 2017?

- A. 60 days
- B. 65 days
- C. 70 days
- D. 75 days

Answer: A

42. Which index did India rank 8th on, April 20, 2017?

- A. AT Kearney FDI Confidence Index
- B. Morgan Stanley Index
- C. Moody's Rating
- D. ICRA rating

Answer: A

43. Which companies will soon be allowed to attract 100 percent FDI investment?

- A. Cash management companies
- B. ATM management companies
- C. Both a and b
- D. Neither a nor b

Answer: C

44. What is the percentage of FDI through automatic route at present according to the Budget?

- A. 60 percent
- B. 70 percent
- C. 80 percent
- D. 90 percent

Answer: D

45. India has crossed which milestone between April 2000 and Sept 2016?

- A. 300 billion FDI
- B. 400 billion FDI
- C. 300 billion GDP
- D. 400 billion GDP

Answer: A

46. India is the fourth largest FDI source for which Arab nation?

- A. Iran
- B. Iraq
- C. Qatar
- D. None of the above

Answer: C

47. Government has raised FDI level in brownfield pharma to what percent under the automatic route to attract capital and technologies in the pharmaceutical sector?

- A. 74
- B. 49
- C. 50
- D. 56

Answer: A

48. Union Government on 20th June 2016 changed the FDI policy with the aim of providing major impetus to employment and job creation. FDI beyond 49 percent in Defence Sector was allowed through which route?

- A. Approval
- B. Automatic
- C. Both of the above
- D. None of the above

Answer: A



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Sub Unit – 5: BALANCE OF PAYMENT (BOP)

49. Which of the following factor forms the invisible account of the Balance of Payments of a country?

- A. International trade in services.
- B. Income associated with non-resident assets and liabilities.
- C. Remittance of worker income.
- D. All the above.

Answer: D

50. Which of the following is part of capital account of a country?

- A. Export and import of goods.
- B. Export and import of services.
- C. Unilateral transfers from one country to another.
- D. NRI deposits.

Answer: D

Explanation: NRI deposits are foreign currency deposits made in an Indian bank by a non-resident Indian. These deposits can be repatriated by the NRI on maturity along with the interest earned.

51. ____ is a systematic record of all the economic transaction between one country and rest of the world

- A. Balance of Trade
- B. Balance of Transaction
- C. Budget
- D. Balance of Payments

Answer: D

Explanation: The balance of payments (BOP) is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

52. As per IMF balance of payment manual, import export of goods should be presented on

- A. FOB basis
- B. FOR basis
- C. CIF basis
- D. All of these

Answer: A

Explanation: Free on Board (FOB) is a shipment term used to indicate whether the seller or the buyer is liable for goods that are damaged or destroyed during shipping. "FOB shipping point" or "FOB origin" means the buyer is at risk and takes ownership of goods once the seller ships the product.

53. OECD stands for

- A. Organization for export co-operation & development
- B. Organization for economic commission & development
- C. Organization for export commission & development
- D. Organization for economic co-operation & development

Answer: D

54. India has witnessed a surplus for the third successive year in which account of the balance of payment?

- A. Trade account of BOP
- B. Current account of BOP
- C. Both (a) and (b)
- D. None of these

Answer: B

55. In India which authority takes the purview of import & export

- A. EXIM
- B. RBI
- C. Ministry of Finance
- D. Ministry of Commerce

Answer: D

56. Devaluation means

- A. To reduce the value of home currency in other currency
- B. To appreciate the value of home currency
- C. To increase the value of home currency in other currency.
- D. To constant the value of home currency.

Answer: A

Explanation: Devaluation is the deliberate downward adjustment of the value of a country's money relative to another currency, group of currencies, or currency standard. Countries that have a fixed exchange rate or semi-fixed exchange rate use this monetary policy tool.

57. _____ is a systematic record of all transactions of a country in a year.

- A. Balance of payment
- B. Balance of Trade
- C. Current Account of Balance of Payment
- D. None.

Answer: A

Explanation: The balance of payments (BOP) is a statement of all transactions made between entities in one country and the rest of the world over a defined period of time, such as a quarter or a year.

58. The current account of Balance of Payment includes trade balance and _____.

- A. Settlement account
- B. Capital account
- C. Invisibles
- D. Errors and omissions.

Answer: C

Explanation: A nation may have a visible balance surplus but this can be offset by a larger deficit in the invisibles balance (creating a Balance of Trade deficit overall) – if, for example, there are large payments made to foreign businesses for invisibles such as shipping or tourism. On the other hand, a visible balance deficit can be offset by a strong surplus on the invisibles balance if, for example, foreign aid is being provided.

59. Balance of payment deficit can be removed through

- A. Devaluation of currency
- B. Vigorous export promotion
- C. Import substitution
- D. All of the above.

Answer: A

Explanation: Devaluation is the deliberate downward adjustment of the value of a country's money relative to another currency, group of currencies, or currency standard.

60. The difference between the value of a nations visible exports and visible import is.

- A. Balance of trade.
- B. Balance of payments.
- C. Balance of current Account.
- D. Balance of Capital Account.

Answer: A

Explanation: Balance of trade (BOT) is the difference between the value of a country's imports and exports for a given period and is the largest component of a country's balance of payments (BOP).

Sub Unit – 6: REGIONAL ECONOMIC INTEGRATION**61. NAFTA stands for**

- A. North African trade association
- B. North American free trade agreement
- C. Northern Atlantic trade agreement
- D. Northern association for trade

Answer: B

62. The term “Inner Six” is related to.....

- A. G-24 organisation
- B. ASEAN
- C. SAARC
- D. European Community Market (EEC)

Answer: D

Explanation: European Economic Community (EEC), byname **Common Market**, former association designed to integrate the economies of Europe.

63. Currently how many members are in the European Union?

- A. 27
- B. 28
- C. 53
- D. 17

Answer: B

64. Which of the following country is not the member of the EU?

- A. Estonia
- B. Denmark
- C. Switzerland
- D. Malta

Answer: C

65. Which of the following statement is NOT correct about the EU?

- A. Germany is the founder member of the EU
- B. Croatia is the latest member of the EU.
- C. Among all the members of the EU, Malta has smallest area
- D. All the member countries of the EU use EURO as the currency of their state.

Answer: D

66. Where is the headquarters of the EU?

- A. Belgium
- B. Netherlands
- C. Luxembourg
- D. Greece

Answer: A

67. Which of the following was/were the objective of the EU?

- A. Establishing an economic and a monetary union
- B. Implementing a common foreign and defence policy
- C. Developing relations in the spheres of home affairs and justice
- D. All of the above

Answer: D

68. What is the full form of ASEAN?

- A. Association of South East Asian Nations
- B. Administration of Southern East Asian Nations
- C. Organisation of South East Asian Nations
- D. Administration of South East Asian Nations

Answer: A

69. How many members are in the ASEAN?

- A. 18
- B. 67
- C. 10
- D. 53

Answer: C

70. When was ASEAN established?

- A. 1963
- B. 1967
- C. 1985
- D. 1996

Answer: B

71. Where was first ASEAN summit held?

- A. Manila
- B. Singapore
- C. Bali
- D. Jakarta

Answer: C

72. Where is the headquarters of ASEAN?

- A. Bali
- B. Jakarta
- C. Manila
- D. Singapore

Answer: B

73. What is the objective of the ASEAN?

- A. To increase competition among the members countries for better products.
- B. To integrate the economies of the region to make region more attractive for investors
- C. To promote economic cooperation in South East Asia and ensure economic stability in the region.
- D. b and c both

Answer: D

74. Currently how many members are in the SAARC organization?

- A. 6
- B. 7
- C. 8
- D. 10

Answer: C

75. When was SAARC established?

- A. 1967
- B. 1995
- C. 1953
- D. 1985

Answer: D

76. Which of the following SAARC member has best HDI rank in the whole group?

- A. India
- B. Pakistan
- C. Sri Lanka
- D. Bhutan

Answer: C

77. Where is the headquarters of the SAARC?

- A. Manila
- B. Kathmandu
- C. New Delhi
- D. Jakarta

Answer: B

78. Consider the following statements about NAFTA

1. NAFTA agreement eliminates barriers to trade and investment between the U.S., Canada and Mexico which was implemented on January 1, 1994.
2. NAFTA established the CANAMEX Corridor for road transport between Canada and Mexico.
3. Cuba becomes new member of NAFTA.

Which of the above statements is / are correct?

- A. 1, 2
- B. 2, 3
- C. 1, 3
- D. All of the above

Answer: A

Sub Unit – 7: INTERNATIONAL ECONOMIC INSTITUTIONS

79. India has retained its ranking as the 10th highest recipient of FDI in 2015, according to which UNCTAD report?

- A. World Investment Report 2016
- B. World Investment Report 2015
- C. World Investing Report 2016
- D. World Investing Report 2015

Answer: a

80. Which of the following statement is not true about the International Monetary Fund?

- A. IMF was established along with the word bank
- B. IMF is the result of the Bretton Woods conference
- C. Christine Lagarde is the current Chief Executive Officer of the IMF
- D. Currently 193 countries are the members of the IMF

Answer: D

81. When was IMF established?

- A. Dec. 27, 1945
- B. Jan. 30, 1947
- C. Jan. 1, 1946
- D. Sept. 24, 1947

Answer: A

82. The value of Special Drawing Right (SDR) is determined by the basket ofcurrencies.

- A. 4
- B. 5
- C. 6
- D. 7

Answer: B

83. Which of the following is not the objective of the IMF?

- A. To promote international monetary cooperation
- B. To ensure balanced international trade
- C. To ensure exchange rate stability
- D. To provide loan to private sectors

Answer: D

84. Which of the following statement is NOT correct about the quota at the IMF?

- A. Voting power in the IMF is based on a quota system
- B. USA has highest quota in the IMF
- C. Germany has third highest quota in the IMF
- D. Indian quota in the IMF stands at 2.79% of the total quotal quota

Answer: c

85. If the Balance of Payment of a country is adverse, then which institution will help that country?

- A. World Bank
- B. World Trade Organization
- C. International Monetary Fund
- D. Asian Development Bank

Answer: C

Explanation: The International Monetary Fund (IMF) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

86. Which of the following is known as the Paper Gold?

- A. US Dollar
- B. Pound
- C. Demand draft
- D. Special Drawing Right

Answer: D

Explanation: The SDR was created as a supplementary international reserve asset in the context of the Bretton Woods fixed exchange rate system. The collapse of Bretton Woods system in 1973 and the shift of major currencies to floating exchange rate regimes lessened the reliance on the SDR as a global reserve asset. Nonetheless, SDR allocations can play a role in providing liquidity and supplementing member countries' official reserves, as was the case amid the global financial crisis.

87. Why World Bank was established?

- A. To promote the International Trade
- B. To reconstruct the economies damaged during the Second World War
- C. To improve the adverse Balance of Payment situation of the non member countries
- D. None of the above

Answer: B

88. Which of the following is not the function of the World Bank?

- A. To provide long term loan to the member countries
- B. To provide loan to private investors belonging to member countries on its own guarantee
- C. To ensure exchange rate stability
- D. To provides loan mainly for productive activities

Answer: D

89. Which of the following institutions is not part of the World Bank community?

- A. IBRD
- B. WTO
- C. IDA
- D. IFC

Answer: B

90. UNCTAD released the Trade and Development Report 2015 entitled _____ on October 6th 2015.

- A. Making the International Financial Architecture Work for Development
- B. Making the Infrastructure Generation Work for Development
- C. Making the Policy Initiatives Work for Sustainable Development
- D. None of the above

Answer: A

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Sub Unit – 8: WORLD TRADE ORGANIZATION (WTO)

91. Ultimatelywas replaced by theon 1st Jan 1995

- A. GATS, WTO
- B. WTO, GATT
- C. GATT, WTO
- D. IMF, GATT

Answer: C

Explanation: The General Agreement on Tariffs and Trade (GATT) is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

92.is only a legal agreement and it is not an institution, but is a permanent institution.

- A. GATT, WTO
- B. WTO, GATT
- C. WTO, IMF
- D. IMF, GATT

Answer: A

Explanation: The General Agreement on Tariffs and Trade (GATT) is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.

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93. The WTO was established to implement the final act of Uruguay Round agreement of

- A. MFA
- B. GATT
- C. TRIP's
- D. UNO

Answer: B

Explanation: The **General Agreement on Tariffs and Trade (GATT)** is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

94. WTO stand for

- A. World technology association
- B. World time organization
- C. World trade organization
- D. World tourism organization

Answer: C

95. The main promoter of trade liberalization was

- A. GATT
- B. NAFTA
- C. CEPTA
- D. CISA

Answer. A

Explanation: The **General Agreement on Tariffs and Trade (GATT)** is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."

96. Which organizations strain on the liberalization of foreign investment and foreign trade?

- A. International Monetary Fund
- B. World Health Organization
- C. World Trade Organization
- D. International Labour Organization

Answer: C

Explanation: The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

97: Which institute supports investments and foreign trade in India?

- A. International Monetary Fund (IMF)
- B. World Trade Organization (WTO)
- C. World Bank
- D. International Labour Organization (ILO)

Answer: B

Explanation: The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

98. India has approved its first National Intellectual Property Rights Policy reiterating India's commitment to TRIPS. What does TRIPS stand for?

- A. The Agreement on Trade Related Aspects of Intellectual Property Rights
- B. The Agreement on Tender Related Aspects of Intellectual Property Rights
- C. The Announcement on Trade Related Aspects of Intellectual Property Rights
- D. The Agreement on Trade Relation Aspects of Intellectual Property Rights

Answer: A

Explanation: The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is an international legal agreement between all the member nations of the World Trade Organization (WTO). It sets down minimum standards for the regulation by national governments of many forms of intellectual property (IP) as applied to nationals of other WTO member nations

99. TRIMs may include requirements to:

- A. Achieve a certain level of local content;
- B. Produce locally;
- C. Export a given level/percentage of goods;
- D. All of the above

Answer: D

100. TRIMS stand for

- A. Trade Related Investment Measures
- B. Task Related Involvement Measures
- C. Tier Related Issue Measures
- D. Trade Related Investment Maintenance

Answer: A

Explanation: The **Agreement on Trade-Related Investment Measures (TRIMs)** are rules that are applicable to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets.



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UNIT: 2

Accounting and auditing

1. Which one of the following concepts is used as fund in the preparation of Funds Flow Statement?

- A. Current Assets
- B. Working Capital
- C. Cash
- D. All Financial Resources

Answer: D

Explanation: In narrow sense fund means **cash**. In broader sense fund means **all the financial resources** used in the business. In popular sense funds means **working capital**.

2. Window dressing is prohibited due to

- A. Conservation Convention
- B. Convention of Disclosure
- C. Convention of Materiality
- D. Arrear of book accounts.

Answer: (B)

Explanation: According to this convention all the information that has an impact on business's financial statements should be disclosed or included alongside to the statement. So as per this convention all the information whether it is significant or not has to be disclose fully.

3. Assertion (A): Ratio analysis is one the tools employed to know the financial health of a concern.

Reason (R): Ratio analysis is not the only technique available to take investment decision.

Codes:

- A. Both (A) and (R) are true and (R) is the correct explanation of (A).
- B. Both (A) and (R) are true, but (R) is incorrect explanation of (A).
- C. (A) is true, but (R) is false
- D. (A) is false, but (R) is true.

Answer: A

Explanation: Financial Ratio is a quantitative relationship between two variables taken from the financial statement. This ratio is a very useful tool for analysing financial health of an organisation. It helps the users of financial statement to analyse the financial statement and take appropriate decision about their activities.

4. In accounting, profit prior to incorporation is treated as

- A. Revenue Reserve
- B. Secret Reserve
- C. Capital Reserve
- D. General Reserve

Answer: D

Explanation: The premium received on issue of shares, profit prior to incorporation and the profits on sale of fixed assets are the major examples of capital profit. Capital profit should be transferred to the capital reserve account, which is used to set off capital losses in future if any and this profit cannot be distributed as dividend. Any profit made prior to incorporation of the business should be treated as capital reserve.

5. Receipts and Payments Account is prepared by

- A. Manufacturing concerns
- B. Non-Trading concerns
- C. Trading concerns
- D. Companies registered under Companies Act, 1956

Answer: B

Explanation: A receipt and payment account is a summarized cash book for a given period. This is a summary of the cash transactions as in the cash book. Non-profit organizations prepare receipt and payment account at the end of the year. With the help of this account and some additional information, we prepare income and expenditure account to disclose the true results of non-profit organizations. Income and Expenditure account is a nominal account.

6. Owners equity stands for

- A. Fixed Assets minus Fixed Liabilities.
- B. Fixed Assets minus Current Liabilities.
- C. Current Assets minus Fixed Liabilities.
- D. Total Assets minus Total outside Liabilities.

Answer: D

Explanation: Owner's equity is essentially the owner's rights to the assets of the business. It's what's left over for the owner after you've subtracted all the liabilities from the assets.

Assets – Liabilities = Owner's Equity

The term "owner's equity" is typically used for a sole proprietorship. It may also be known as shareholder's equity or stockholder's equity if the business is structured as an LLC or a corporation.

7. When the Debt Turnover Ratio is 4, what is the average collection period?

- (A) 5 months
- (B) 4 months
- (C) 3 months
- (D) 2 months

Answer: C

Explanation: We can easily calculate the average collection period from Debtors Turnover Ratio by just dividing the 12 months by Debtors Turnover Ratio i.e. $\frac{12}{4} = 3$ Months.

8. Which of the following will result into sources of funds?

- (i) Increase in current assets
- (ii) Decrease in current assets
- (iii) Increase in current liabilities
- (iv) Decrease in current liabilities

Codes:

- A. (i) and (iv)
- B. (ii) and (iii)
- C. (i) and (iii)
- D. (ii) and (iv)

Answer: B

Explanation: The fund flow statement is a statement which indicates various means by which the funds have been obtained during a specific period and the ways to which these funds have been used during that period. The term flow means movement and includes both inflows and outflows of resources. So, fund flow statement is the statement which shows the inflow and outflow of funds from different sources. Decrease of current assets implies sale of current assets which results in sources of inflow of fund and Increase in current liabilities also implies we are taking credit from others i.e. inflow of sources of fund.

9. In marginal costing, contribution is equal to

- A. Sales – Fixed cost
- B. Sales – Variable cost
- C. Sales – Profit
- D. Sales – Variable Cost + Fixed cost

Answer: B

Explanation: The term contribution represents the difference between sales price and variable cost. Contribution means, “contribution towards absorption of fixed costs and profits”.

10. The funds available with a company after paying all claims including tax and dividend is called

- A. Net Profit
- B. Net Operating Profit
- C. Capital Profit
- D. Retained Earnings

Answer: D

Explanation: Retained earnings = Net Profit - Tax - Preference dividend - Equity dividend

11. Assertion (A): Accounting information refers to only events which are concerned with business firm.

Reason (R): Accounting information is presented in financial statements.

Codes:

- (A) (A) is correct, but (R) is wrong.
- (B) Both (A) and (R) are correct.
- (C) (A) is wrong, but (R) is correct.
- (D) Both (A) and (R) are wrong.

Answer: B

Explanation: Accounting information of any concern is provided through financial statement to the interested parties. Accounting information of any business is only relating to that particular organisation. Financial statement not only represents the profit and loss of the business but also the assets and liabilities of the business.

12. The main objective of Accounting Standards is

- A. To prepare the accounting reports which is easily understood by common man.
- B. To comply with the legal formalities.
- C. To harmonise the diversified accounting practices.
- D. To comply with the requirements of the International Accounting Standards (IAS).

Answer: C

Explanation: In order to ensure transparency, consistency, comparability, adequacy and reliability of financial reporting, it is essential to standardize the accounting principles and policies, accounting standards basically provide framework and standard accounting policies so that financial statements of different enterprise become comparable. So the main objective of the Accounting Standard is to harmonise the diversified accounting standard.

13. Given below are two statements:

- I. Activity ratios show where the company is going.
- II. Balance Sheet ratios show how the company stand.

Codes:

- A. I is correct, but II is wrong.
- B. Both I and II are correct.
- C. I is wrong, but II is correct.
- D. Both I and II are wrong.

Answer: B

Explanation: This ratio helps to understand how efficient the management of the company is. As this ratio measures the efficiency of the utilization of assets of the company. Balance sheet ratio indicates relationship between two items of balance sheet or analysis of balance sheet items to interpret company's results on quantitative basis. Balance sheet ratio indicates the current position of the company.

14. Income and Expenditure Account of non-profit organisation is a

- A. Real Account
- B. Nominal Account
- C. Personal Account
- D. Representative Personal Account

Answer: B

Explanation: A receipt and payment account is a summarized cash book for a given period. This is a summary of the cash transactions as in the cash book. Non-profit organizations prepare receipt and payment account at the end of the year. With the help of this account and some additional information, we prepare income and expenditure account to disclose the true results of non-profit organizations. Income and Expenditure account is a nominal account.

15. If the current ratio is 2: 1 and working capital is Rs. 60,000, what is the value of the Current Assets?

- A. Rs. 60,000
- B. Rs. 1, 00,000
- C. Rs. 1, 20,000
- D. Rs. 1, 80,000

Answer: C

Explanation: $CR = \frac{CA}{CL} = 2:1$

Or, $CA = 2CL$

Or, $2CL = 60000 + CL$

Or, $CL = 60000$

$CA = 2 \times 60000 = \text{Rs. } 1,20,000$

$W.C = CA - CL$

Or, $CA - CL = 60000$

Or, $CA = 60000 + CL$

16. Match List-I with List-II and select the correct answer:

List – I

- (i) Measurement of income
- (ii) Recognition of expense
- (iii) Basis of realization
- (iv) Identification of revenue

List – II

- (a) Accrues to the equity of owners
- (b) Recognition of revenue
- (c) Matching revenue with expenses
- (d) Accounting period

Codes :

- (i) (ii) (iii) (iv)
- A. (a) (b) (c) (d)
 - B. (b) (a) (c) (d)
 - C. (c) (d) (a) (b)
 - D. (c) (d) (b) (a)

Answer: D

17. Consider the following items:

- (i) Debentures
- (ii) Prepaid rent
- (iii) Interest accrued
- (iv) Bank overdraft

Which of them are current liabilities?

- A. (i), (ii), (iii) and (iv)
- B. (iv)
- C. (ii), (iii) and (iv)
- D. (i), (ii) and (iii)

Answer: B

Explanation: Debentures is long term liabilities, prepaid rent and interest accrued are current assets. Bank overdraft is current liabilities.

18. If Opening Stock is Rs. 10,000, Net Purchases Rs. 70,000, Wages Rs. 2,500, Carriage inward Rs. 500 and closing Stock Rs. 15,000, what is the Manufacturing Cost?

- A. Rs. 65,000
- B. Rs. 83,000
- C. Rs. 68,000
- D. Rs. 73,000

Answers: C

Explanation: Manufacturing Expenses = Opening stock + Net purchase + Wages + Carriage Inward - Closing Stock

19. Which one of the following statements is true?

- A. Capital expenditure does not affect the profitability of a concern but revenue expenditure does.
- B. Capital expenditure affects the profitability of a concern directly but revenue expenditure does not.
- C. Capital expenditure affects the profitability of a concern indirectly but revenue expenditure affects directly.
- D. Both capital expenditure and revenue expenditure affect the profitability of a concern directly.

Answers: C

Explanation: Capital expenditure implies purchase of fixed assets which helps to generate income in future and capital expenditure is not charged to P/L account but, revenue expenditure directly charged to P/L account. So, Capital expenditure affects the profitability of a concern indirectly but revenue expenditure affects directly.

20. X and Y are partners in a firm sharing profits in the ratios of 2: 1. Z is admitted with a $\frac{1}{3}$ profit sharing. What will be the new profit-sharing ratio of X, Y and Z?

- A. 3: 3: 3
- B. 4: 3: 2
- C. 4: 2: 3
- D. 2: 3: 4

Answers: C

Explanation: Let, Total share = 1

Z's share = $\frac{1}{3}$ rd

Remaining share = $\frac{2}{3}$ rd

X's new share = $\frac{2}{3} \times \frac{2}{3} = \frac{4}{9}$

Y's new share = $\frac{2}{3} \times \frac{1}{3} = \frac{2}{9}$

New ratio, X:Y:Z = $\frac{4}{9}:\frac{2}{9}:\frac{1}{3}$
= 4:2:3

21. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

Assertion (A): When a company earns profit prior to its incorporation, it is called capital profit.

Reason (R): Capital profit cannot be used for distribution as dividend to the shareholders.

In the context of the above statements, which one of the following is correct?

Codes:

- (A) (A) is correct, but (R) is wrong.
- (B) Both (A) and (R) are correct.
- (C) (A) is wrong, but (R) is correct.
- (D) Both (A) and (R) are wrong.

Answers: (B)

Explanation: The premium received on issue of shares, profit prior to incorporation and the profits on sale of fixed assets are the major examples of capital profit. Capital profit should be transferred to the capital reserve account, which is used to set off capital losses in future if any and this profit cannot be distributed as dividend. Any profit made prior to incorporation of the business should be treated as capital reserve.

22. Reconstruction of a company takes place when

- (i) The company is undercapitalized
- (ii) Company has incurred heavy losses which must be written off
- (iii) The company is overcapitalized

Which one of the following is correct?

- A. (i) and (ii) only
- B. (i) and (iii) only
- C. (ii) and (iii) only
- D. All the above

Answers: C

Explanation: Reconstruction is an exercise of restating assets & liabilities by company / entity whose financial position as reflected by its balance sheet is not healthy but future is promising. It is undertaken when the company is overcapitalised. The main objectives of reconstruction are

1. To generate surplus for writing off accumulated losses & writing down overstated assets.
2. To generate cash for working capital needs, replacement of assets, to add balancing equipment, modernise plant & machinery etc.

23. Match the items of List – I with the items of List – II and select the correct answer using the codes given below the lists:

List – I

- (a) Leverage Ratio
- (b) Liquidity Ratio
- (c) Turnover Ratio
- (d) Profitability Ratio

List – II

- (i) Short-term solvency
- (ii) Earning capacity
- (iii) Relationship between debt and equity
- (iv) Efficiency of Asset Management

Codes:

- (a) (b) (c) (d)
- A. (ii) (i) (iv) (iii)
- B. (iii) (ii) (i) (iv)
- C. (iv) (iii) (i) (ii)
- D. (iii) (i) (iv) (ii)

Answers: D

24. Match List – I with List – II and select the correct answer using the codes given below the lists:

List – I

- (a) Goodwill of a company
- (b) Overdraft
- (c) Preliminary Expenses
- (d) Premium on Issue of Shares

List – II

- (i) Current liability
- (ii) Fixed Assets
- (iii) Reserves and Surplus
- (iv) Fictitious Assets

Codes:

- (a) (b) (c) (d)
- A. (ii) (i) (iv) (iii)
- B. (i) (ii) (iv) (iii)
- C. (i) (ii) (iii) (iv)
- D. (ii) (i) (iii) (iv)

Answers: A

25. Present value of future earnings is a model of Human Resources Accounting suggested by

- A. Brauch Lev & ABA Schwartz
- B. Jaggi & Lau
- C. S.K. Chakraborty
- D. Eric Flamhaltz

Answers: A

Explanation: The Lev and Schwartz model states that the human resource of a co is the summation of value of all the Net present value (NPV) of expenditure on employees. The human capital embodied in a person of age r is the present value of his earning from employment.

26. A and B are partners sharing profits in the ratio of 3 : 2. Their books showed goodwill at Rs. 3,000. C is admitted with $\frac{1}{4}$ th share of profits and brings Rs. 10,000 as his capital. But he is not able to bring in cash for his share of goodwill Rs. 3,000. How will you treat this?

- A. Goodwill is raised by Rs. 12,000
- B. C will remain as debtor for Rs. 3,000
- C. C's A/c. is debited for Rs. 3,000
- D. Goodwill is raised by Rs. 9,000

Answer: D

Explanation: C is required to bring Rs.3000 as premium for goodwill for $\frac{1}{4}$ th share. So, total value of goodwill will be $\text{Rs.}3000 \times \frac{4}{1} = \text{Rs.}12000$. Goodwill already raised in the book is. Rs.3000. As C is unable to bring the premium for goodwill, it is to be raised at full value in the books i.e. Rs.12000. But goodwill already raised in the books is Rs.3000. so, balance amount $\text{Rs.}(12000-3000) = \text{Rs.}9000$ to be raised in the books.

27. Improvement of profit-volume ratio can be done by

- A. Increasing selling price
- B. Altering sales mixture
- C. Reducing variable cost
- D. All of the above

Answer: D

Explanation: The formula for P/V ratio is Contribution/Sales. Again Contribution = S - VC. So we can improve the P/V ratio by increasing either by increasing selling price per unit or reducing variable cost per unit or by taking any activities which will result in increasing selling price or reducing variable cost.

28. Which of the following comes under efficiency ratios?

- A. Average collection period
- B. Inventory turnover ratio
- C. Fixed assets turnover ratio
- D. All of the above

Answer: D

Explanation: Activity ratio is also known as efficiency ratio i.e. how management is efficiently utilising the stock, debtors, creditors etc.

29. Match the items of the following two lists:

List – I

- (i) Statement of changes in Working Capital
- (ii) Deferred Tax
- (iii) Three activities
- (iv) Impairment Loss

Codes:

(i) (ii) (iii) (iv)

- A. (a) (b) (c) (d)
- B. (c) (d) (b) (a)
- C. (c) (d) (a) (b)
- D. (d) (c) (a) (b)

Answer: C

Explanation: Statement of changes in working capital is associated with Funds Flow Statement, Deferred tax is associated with balance sheet, Three activities (Cash flow from operating activities, Cash flow from financing activities and Cash flow from investing activities) is associated with cash flow statement and impairment of loss is associated with fixed assets.

List – II

- (a) Cash Flow Statement
- (b) Fixed Assets
- (c) Funds Flow Statement
- (d) Balance Sheet

30. Match the items of the following two lists and indicate the correct answer:

List – I

- (i) Earning ability of firm
- (ii) Conservatism
- (iii) Cash profit
- (iv) Cash and Accrual

List – II

- (a) Basis of Accounting
- (b) P/V ratio
- (c) Cash flow statement
- (d) Prudence

Codes:

(i) (ii) (iii) (iv)

- A. (b) (d) (c) (a)
- B. (b) (a) (d) (c)
- C. (c) (d) (a) (b)
- D. (c) (d) (b) (a)

Answer: A

Explanation: Earning ability of a firm is measured with the help of P/V ratio, conservatism principle is associated with prudence, cash profit is associated with cash flow statement and cash and accrual basis is the basis of accounting.

31. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R).

Assertion (A): Only the relevant costs should be taken into consideration for decision making.

Reason (R): All variable costs are relevant costs and all fixed costs are irrelevant costs.

In the above statements, which one alternative of the following is correct?

Codes:

- A. Both (A) and (R) are correct.
- B. Only (A) is correct, but (R) is wrong.
- C. Only (R) is correct, but (A) is wrong.
- D. Both (A) and (R) are wrong.

Answer: B

Explanation: Relevant costing attempts to determine the objective cost of a business decision. An objective measure of the cost of a business decision is the extent of cash outflows that shall result from its implementation. Relevant costing focuses on just that and ignores other costs which do not affect the future cash flows. Irrelevant costs are costs that won't be affected by a managerial decision. Relevant costs are costs that will be affected by a managerial decision.

32. Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):

Assertion (A): Variance analysis is undertaken for planning and control of costs.

Reason (R): Future costs are taken into consideration in budgeting and standard costing.

In the above statements, which one alternative of the following is correct?

Codes:

- A. Both (A) and (R) are correct and (R) is the Reason for (A).
- B. Both (A) and (R) are correct and (R) is not the Reason for (A).
- C. (A) is correct, but (R) is wrong.
- D. (A) is wrong, but (R) is correct.

Answer: B

Explanation: Standard costing uses estimated costs completely to calculate all three elements of product costs: direct materials, direct labour, and overhead. Managers use standard costs for planning and control in the management process such as planning for budget development; product costing, pricing, and distribution. Budgetary control and standard costing have the common objective of cost control by establishing pre-determined targets. Standard costing and budgetary control have the same principles – setting targets, comparing actual performance with pre-set targets, analysing and reporting of variances.

33. The main difference between marginal costing and absorption costing lies in the treatment of

- A. Direct cost
- B. Fixed overhead
- C. Variable overhead
- D. Semi-variable overhead

Answer: C

Explanation: Marginal costing applies only those costs to inventory that were incurred when each individual unit was produced, while absorption costing applies all production costs to all units produced. Only the variable cost is applied under marginal costing, while fixed costs as well as variable costs applied under absorption costing.

34. Which of the following is not applicable to responsibility accounting?

- A. Accounting Centre
- B. Cost Centre
- C. Investment Centre
- D. Profit Centre

Answer: A

Explanation: A responsibility centre can be classified into four centres like cost centre, revenue centre, profit centre and investment centre.

35. A company sells its product at Rs. 15 per unit. In a period if it produces and sells 8,000 units, it incurs a loss of Rs. 5 per unit. If the volume is raised to 20,000 units it earns a profit of Rs. 4 per unit.

Variable cost per unit will be

- A. Rs. 9 per unit
- B. Rs. 4.5 per unit
- C. Rs. 5 per unit
- D. Rs. 6 per unit

Answer: C

36. Which of the following is a sub variance of labour efficiency variance?

- A. Idle time variance
- B. Labour-mix variance
- C. Labour-yield variance
- D. All of the above

Answer: D

Explanation:

Total Labour cost variance = Rate variance + Efficiency variance + Idle time variance

Efficiency variance = Mix variance + Revised efficiency variance

37. An investment centre is a responsibility centre where the manager has control over

- A. Costs
- B. Costs and profits
- C. Costs, profits and product quality
- D. Costs, profits and assets

Answer: C

Explanation: Investment Centre is responsible for both investments and revenue. The investment manager can control expenses, income, the fund invested in assets, etc. He also has the authority to form a credit policy, which has an immediate impact on debt collection.

38. When sales are Rs.30000 and P/V ratio is 20% then contribution will be-----

- A. 2000
- B. 4000
- C. 6000
- D. 8000

Answer. C

Explanation: P/V ratio= C/S

So, Contribution= 30000*20%=6000

39. Current Ratio 2.5, Liquid Ratio 1.5 and Working Capital Rs. 60,000. What is Current Assets ?

- A. Rs. 60,000
- B. Rs. 80,000
- C. Rs. 1,00,000
- D. Rs. 1,20,000

Answer: C

Explanation: $CA/CL=2.5/1$

$$CA-CL=60000$$

$$CA=60000+CL$$

$$2.5CL=60000+CL$$

$$\text{Or, } 1.5CL=60000$$

$$\text{Or, } CL=40000$$

$$CA=60000+40000$$

$$CA=\text{Rs.}100000$$

40. X, Y, Z are sharing profits in the ratio of 6 : 5 : 3. A is admitted into partnership for $1/8$ th share. The sacrificing ratio of X, Y and Z is

- A. Equal
- B. 6 : 5 : 3
- C. $5/14, 4/14, 5/14$
- D. 4 : 5 : 5

Answer: B

Explanation: Let, total share = 1

$$A's \text{ share} = 1/8^{\text{th}}$$

$$\text{Remaining share} = 7/8^{\text{th}}$$

New share

$$X = 7/8 * 6/14 = 42/84$$

$$Y = 7/8 * 5/14 = 35/84$$

$$Z = 7/8 * 3/14 = 21/84$$

Sacrificing ratio

$$X = \text{Old ratio} - \text{New Ratio} = 6/14 - 42/84 = 36/84 - 42/84 = -6/84$$

$$Y = 5/14 - 35/84 = 30/84 - 35/84 = -5/84$$

$$Z = 3/14 - 21/84 = 18/84 - 21/84 = -3/84$$

$$X:Y:Z = 6:5:3$$

41. Accounting information given by a company :

Total assets turnover 3 times

Net profit margin 10%

Total assets Rs. 1,00,000

The net profit is

A. Rs. 10,000

B. Rs. 15,000

C. Rs. 25,000

D. Rs. 30,000

Answer: D

Explanation: Total assets turnover ratio = $\text{Sales} / \text{Total assets} = S / 100000 = 3$

So, sales = 300000

Net profit = $300000 \times 10\% = \text{Rs. } 30000$

42. "Make sufficient provisions for future losses, but do not anticipate future profits." This statement is in accordance to the concept of:

A. Matching

B. Objectivity

C. Conservatism

D. Materiality

Answer: C

Explanation: According to Conservatism approach probable losses has to be accounted but probable gains should not be included in financial statement. So, this concept allows accountants to anticipate future losses, rather than future gains.

43. When a firm is dissolved, profit or loss on realisation is shared by the partners

A. Equal

B. In the ratio of their capital balances

C. In the profit-sharing ratio

D. In the ratio laid down in Garner Vs. Murray

Answer: C

Explanation: When there is nothing mentioned about the treatment of deficiency of insolvent partner, the judgement of leading case of Garner vs. Murry (1903) is followed.

As per this case the deficiency of insolvent partner must be borne by the other solvent partners in proportion to their capital, after each solvent partner has brought in cash equal to his own share of loss on realisation (i.e. on profit sharing ratio). To apply this decision, three conditions must be fulfilled

a) There are two or more than two solvent partners

b) One or more of partners are solvent

c) The capitals are not in profit sharing ratio.

44. Subsequent expenditures that extend the useful life, improve the quality of output, or reduce operating costs of an existing asset beyond their originally estimated levels are

- A. Capital expenditures
- B. Revenue expenditures
- C. Deferred Revenue expenditures
- D. None of the above

Answer: A

Explanation: Capital expenditure refers to the investment used by a business to acquire, maintain, extend the useful life of the assets and upgrade fixed assets i.e. to expand business and to generate additional profits.

Examples: Purchase of plant and Machinery, motor car, furniture, addition to office building etc.

45. Marginal-costing technique is useful for

- A. Make or Buy decisions
- B. Profit planning
- C. Shut-down decisions
- D. All of the above

Answer: D

Explanation: Marginal costing is used for short run decision making, when:

- Business is calculating the break-even level of output.
- Business is considering whether to make or buy a product.
- Business is choosing between two or more alternatives.
- Business is costing a project to determine the minimum possible price to be quoted.
- Business is devising a price strategy.
- Business is abandoning a line of business.
- Business is facing a limiting factor and is deciding about optimum production mix.

46. Which one is not a feature of budgetary control?

- A. A tool for management control.
- B. An instrument of delegation and authority.
- C. An instrument for evaluating the overall performance.
- D. A statement of budget and forecasts.

Answer: D

47. The Debt-Equity Ratio of a company is 2: 1.

In this relation, match the following:

List – I

- (a) Issue of equity shares
- (b) Cash received from debtors
- (c) Redemption of debentures
- (d) Purchased goods on credit

List – II

- 1. No change on the ratio
- 2. Reduce the ratio
- 3. No change on the ratio
- 4. Reduce the ratio

Codes: (a) (b) (c) (d)

- A. 1 2 3 4
- B. 2 3 4 1
- C. 1 3 4 2
- D. 2 4 1 3

Answer: B

Explanation: a) Debt-equity ratio = $\frac{\text{Long-Term Debt}}{\text{Shareholders equity}}$ Or, $\frac{\text{Total debts}}{\text{Shareholders Equity}}$

* Shareholders Equity = Preference Share capital + Equity share capital

48. Which of the following accounting equations is not correct?

- A. Assets – Liabilities = Equity
- B. Assets – Equity = Liability
- C. Assets + Liabilities = Equity
- D. Liabilities + Equity = Assets

Answer: C

Explanation: The accounting equation is a simple way to view the relationship of financial activities across a business. The equation is typically written as:

Assets = Liabilities + Owner Equity

It can also be structured as:

Liabilities = Assets - Owner Equity

Owner Equity = Assets - Liabilities

49. Which one of the following statements is correct?

- A. Increases in liabilities are credits and decreases are debits.
- B. Increases in assets are credits and decreases are debits.
- C. Increases in capital are debits and decreases are credits.
- D. Increases in expenses are credits and decreases are debits.

Answer: A

Explanation: For increasing the liability, it must be credited and decreasing liability it must be debited. On the other hand, for increasing assets it must be debited and decreasing assets it must be credited. Expenses must be debited and income must be credited.

50. A and B are partners in a firm sharing profit and loss in the ratio of 3 : 2. They admit C into partnership for $\frac{1}{4}$ share and the new ratio between A and B is 2 : 1. The sacrificing ratio is

- A. 1: 1
- B. 2: 1
- C. 3: 1
- D. 2: 3

Answer: D

Explanation: Sacrificing ratio=New ratio-Old ratio

$$A=2/4-3/5=10-12/20=-2/20$$

$$B=1/4-2/5=5-8/20=-3/20$$

$$A:B=2:3$$

New ratio,

$$A=3/4*2/3=6/12$$

$$B=3/4*1/3=3/12$$

$$C=3/12$$

$$A: B: C=2:1:1$$

51. Intrinsic value of a share is given by

- A. Total net assets /No. of shares
- B. Total assets/ No. of shares
- C. Share capital /No. of shares
- D. Market capitalisation /No. of shares

Answer: A

Explanation: Intrinsic value Per Share=
$$\frac{\text{Net Assets}-\text{Preference Share Capital}}{\text{No. of Equity Shares}}$$

52. Which one of the following is correct ?

- (i) Liquidity ratios measure long term solvency of a concern.
- (ii) Inventory is a part of liquid assets.
- (iii) Rule of thumb for acid test ratio is 2 : 1.
- (iv) The amount of gross assets is equal to net capital employed.

- A. (i), (ii) and (iv)
- B. (ii), (iii) and (iv)
- C. (i), (ii), (iii) and (iv)
- D. None of the above

Answer: C

53. When a company takes over another one and clearly becomes a new owner, the action is called

- A. Merger
- B. Acquisition
- C. Strategic Alliance
- D. None of the above

Answer: B

Explanation: An acquisition refers to a corporate transaction wherein a company purchases a portion or entire shares/assets of another company. A new company does not emerge from an acquisition; rather, the smaller company is often consumed and ceases to exist, and its assets become part of the larger company.

54. Read the following statements:

- (i) Financial statements are only interim reports.
- (ii) Financial statements are prepared on the basis of realizable values.
- (iii) The preparation of financial statements is not an ultimate aim.
- (iv) Certain assumptions are necessary to prepare financial statements.

Which of the following combinations consists of all true statements ?

- A. (i), (ii) and (iii)
- B. (ii), (iii) and (iv)
- C. (i), (iii) and (iv)
- D. (i), (ii) and (iv)

Answer: D

Explanation: Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. These statements are prepared to give users outside of the company, like investors and creditors, more information about the company's financial positions. Publicly traded companies are also required to present these statements along with others to regulatory agencies in a timely manner. Financial statement not only represents the profit and loss of the business but also the assets and liabilities of the business.

55. Which of the following is not a subsidiary book?

- A. Purchase Book
- B. Sales Book
- C. Bills Receivables Book
- D. Assets Book

Answer: D

Explanation: List of subsidiary books

Purchase Books, Purchase return book, sales book, Sales return book, Cash book, journal proper, Bills receivable book, Bills payable book.

56. Which of the following are the applications of funds?

- (i) Redemption of Preference share capital.
- (ii) Payment of Dividend.
- (iii) Increase in working capital.

- A. only (i) and (ii)
- B. only (ii) and (iii)
- C. only (i) and (iii)
- D. (i), (ii) and (iii)

Answer: A

Explanation: Application of fund implies the items for which cash outflow is occurred.

57. Variable cost ratio is 60% Sales Rs.20000 and fixed cost Rs.5000, then profit will be

- A. 15000
- B. 12000
- C. 3000
- D. 10000

Answer: C

Explanation: Sales- VC=Contribution-Fixed Cost= Profit
 $\text{Rs.20000}-12000=\text{Rs.8000}-5000=\text{Rs.3000}$

58. Accounting concepts are based on

- A. Certain assumptions
- B. Certain facts and figures
- C. Certain accounting records
- D. Government guidelines

Answer: B

Explanation: The term concept includes those basic assumptions, conditions and ideas upon which the science of accounting is based.

59. The main purpose of Cost Accounting is to

- A. assist management in decision making.
- B. maximise profits and minimise losses.
- C. comply norms issued by the Government of India from time to time.
- D. prepare cost accounts in line with the accounting standards

Answer: D

Explanation: Cost Accounting is basically the next step to costing. Cost accounting involves analyzing relevant costing data, interpret it and present various management problems to management. So, cost accounting helps to prepare cost accounts following the accounting standard.

60. The concept of budget that requires all levels to work from scratch is

- A. Flexible Budget
- B. Total Budget
- C. Master Budget
- D. Zero Base Budget

Answer: D

Explanation: Zero based budgeting in management accounting involves preparing the budget from the scratch with a zero-base. It involves re-evaluating every line item of cash flow statement and justifying all the expenditure that is to be incurred by the department.

61. Land is not depreciable asset because

- A. Its value always increases
- B. There is no maintenance required
- C. Life of land is unlimited
- D. None of the above

Answer: C

62. Minority interest includes

- A. Share in Share capital
- B. Share in Capital Profit
- C. Share in revenue profit
- D. All of the above

Answer: D

Explanation:

Minority interest = Share in Share capital + Share in Capital Profit + Share in revenue profit

63. Statement I: When there is one or more liquidation and no formation, it is known as acquisition.

Statement II: When there is one liquidation and one formation it is known as reconstruction.

Select the correct Codes:

- A. Statement I is true, but statement II is false
- B. Statement II is true, but Statement I is false.
- C. Both statements are true
- D. Both statements are false.

Answer: C

Explanation: An acquisition refers to a corporate transaction wherein a company purchases a portion or entire shares/assets of another company. A new company does not emerge from an acquisition; rather, the smaller company is often consumed and ceases to exist, and its assets become part of the larger company.

The term 'External Reconstruction' means the winding up of an existing company and registering itself into a new one after a rearrangement of its financial position. Thus, there are two aspects of 'External Reconstruction', one, winding up of an existing company and the other, rearrangement of the company's financial position.

64. What is the excess of net assets over consideration paid called?

- A. Capital reserve
- B. Reserve Capital
- C. Security Premium
- D. Goodwill

Answer: A

Explanation: Any excess of the amount of purchase consideration over the value of net assets of the transferor company acquired by the transferee company should be recognised as goodwill in the financial statement of the transferee company. Any short fall should be shown as a capital reserve.

65. The directors of a company forfeited 1000 shares of Rs. 10 each, Rs. 7.5 paid up for non-payment of call money @ Rs. 2.5 per share, 700 of these shares are re-issued @ Rs. 7 per share. The amount transfer to capital reserve A/C would be

- A. Rs. 2500
- B. Rs. 3150
- C. Rs. 3500
- D. Rs. 5400

Answer: B

Explanation: Total forfeited amount = $1000 \times 7.5 = 7500$

Loss on re-issue of shares = $700 \times 3 = 2100$

Balance of share forfeiture account = 5400

Amount of profit on unissued shares = $7.5 \times 300 = 2250$

So, capital reserve = $5400 - 2250 = \text{Rs. } 3150$

After any forfeited share has been re-issued, any balance left in forfeited share account represents a capital profit. It is transferred to Capital reserve Account. When all forfeited shares have been issued, the credit balance left on the share forfeiture account is transferred to capital reserve account. But, if all the forfeited shares are not re-issued, the proportionate profit is to be calculated only on the re-issued shares. Only that profit can be transferred.

66. A company can buy back

- A. Partly paid shares
- B. Fully paid shares
- C. Partly called up
- D. None of these

Answer: B

Explanation: No company shall purchase its own shares or other specified securities under sub-section (1), unless—

- All the shares or other specified securities for buy-back are fully paid-up;

67. A, B and C are three equal partners. D is admitted for $\frac{1}{4}$ th share. What is the sacrificing ratio?

- A. 1:1:1
- B. 1:2:1
- C. 2:1:1
- D. 1:1:2

Answer: A

Explanation: Old Ratio,

A:B:C=1:1:1

D's share= $\frac{1}{4}$ th

Remaining share= $\frac{3}{4}$ th

New ratio

A:B:C= $\frac{3}{4} \times \frac{1}{3} = \frac{3}{12} : \frac{3}{12} : \frac{3}{12}$

A:B:C:D=1:1:1:1

Sacrificing ratio= New ratio-old ratio

A= $\frac{1}{4} - \frac{1}{3} = -\frac{1}{12}$

B= $\frac{1}{4} - \frac{1}{3} = -\frac{1}{12}$

C= $\frac{1}{4} - \frac{1}{3} = -\frac{1}{12}$

A:B:C=1:1:1

68. Which method of HR accounting was developed by Lev and Schwartz?

- A. Capitalisation of historical cost model
- B. Opportunity cost model
- C. Present value of future earning model
- D. Replacement cost model

Answer: C

Explanation: The Lev and Schwartz model states that the human resource of a co is the summation of value of all the Net present value (NPV) of expenditure on employees. The human capital embodied in a person of age r is the present value of his earning from employment.

69. Current Cost Accounting method attempted to match the current income against which cost?

- A. Past cost
- B. Current cost
- C. General Cost
- D. Individual cost

Answer: B

Explanation: Under Current Cost Accounting method, the cost categories and the various cost items and the items in the balance sheet are shown at the current cost rather than the historical cost and the profit is determined under this method, the cost categories and the various cost items and the items in the balance sheet are shown at the current cost rather than the historical cost. Current cost accounting (CCA) method was proposed by the Sandilands Committee of UK.

70. IFRS-2 applies to share-based payment transaction in which an entity----- goods or services

- A. Acquires
- B. Receives
- C. Transfers
- D. Both (a) & (b)

Answer: D

Explanation: A share-based payment is a transaction in which the entity receives or acquired goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's share or other equity instruments of the entity. The accounting requirement for the share-based payments depends on how the transaction will be settled, that is by the issuance of a) equity b) cash or c) equity or cash.

71. The basic concept related to profit and loss account is /are

- A. Realisation concept
- B. Matching concept
- C. Cost concept
- D. Both (a) and (b)

Answer: D

Explanation: Matching concept of accounting defines and states that “while preparing the income statement, revenue and profits are matched with the related expenses incurred in generating them”. So as per matching concept in determining the net profit from business operations all cost which is applicable to revenue of the period should be charged against that.

According to realisation concept, which is also known as the “revenue recognition concept”, revenue is considered as being earned on the date on which it is realized, i.e., the date on which goods and services are transferred to customers either for cash or for credit. “Credit transactions create debtors and the promise of debtors to make payment is sufficient for the purpose of realising revenue. The realisation concept is important in ascertaining the exact profit earned during a period in a business concern. This concept is very important as it prevents firms from inflating their profits by recording sales and incomes that are likely to accrue.

72. Which of the following equation is correct?

- A. Gross profit= Net sales- Cost of Goods Sold
- B. Gross Profit= Sales+ closing stock-Opening stock-Purchase
- C. Cost of goods sold+ Gross profit=Sales
- D. All of the above

Answer: D

Explanation:

Cost of Goods Sold (COGS) = Opening stock+ Purchase-Closing stock

Sales= COGS+ Gross profit

Gross profit=Sales-GOGS

73. Match the following

List I

- a. Labour cost variance
- b. Labour rate variance
- c. Efficiency variance
- d. Idle time variance

List II

- i. Actual hours paid(Standard rate- Actual rate)
- ii. Standard cost- Actual Cost
- iii. Idle hours*Standard rate per hour
- iv. Standard rate (Standard hours-Actual hours worked)

Codes:

| | A | B | C | D |
|----|---|---|---|---|
| A. | 4 | 3 | 2 | 1 |
| B. | 2 | 3 | 4 | 1 |
| C. | 4 | 1 | 2 | 3 |
| D. | 2 | 1 | 4 | 3 |

Answer: D

Explanation: a) Labour rate variance

= (Standard Rate Per Hour – Actual Rate Per Hour) x Actual Hours

b) Labour Efficiency Variance = (Standard Hours for Actual Out Put – Actual Hours) x Standard Rate

c) Idle Time Variance = St. Rate (Actual Hours Worked – Actual Hours Paid)

d) Labour cost variance=It is the difference between the standard cost of labour allowed (as per standard laid down) for the actual output achieved and the actual cost of labour employed. It is also known as wages variance.(2.5.3.5)

74. Match the following

List I

- a.MCV
- b.MPV
- c.MUV
- d.MMV

List II

- i. SP (RSQ-AQ)
- ii.SP (SQ-AQ)
- iii.AQ consumed (SP-AP0
- iv.SC-AC

Codes:

| | A | B | C | D |
|----|---|---|---|---|
| A. | 4 | 3 | 2 | 1 |
| B. | 2 | 1 | 4 | 3 |
| C. | 4 | 1 | 2 | 3 |
| D. | 3 | 4 | 2 | 1 |

Answer: A

Explanation: a) Material Price Variance = (Standard Price – Actual Price) x Actual Quantity

b) Material Usage Variance = (Standard Quantity for actual output – Actual Quantity) x Standard Price

c) Material Cost Variance= Standard Cost- Actual cost

d) Material Mix Variance (MMV) = Standard rate (SP)x [(Revised Standard quantity (RSQ)- Actual quantity(AQ)]

75. Which of the following is not an Accounting concept ?

- A. Matching concept
- B. Dual Aspect concept
- C. True and Fair concept
- D. Going concern concept

Answer: C

Explanation: Accounting Concept

- Separate entity concept
- Going concern Concept
- Dual Concept
- Money Measurement Concept
- Cost Concept or Historical cost concept
- Accounting period concept
- Realisation Concept
- Matching Concept
- Accrual Concept

76. Capital adequacy norm is expressed as a percentage of

- A. Standard Assets
- B. Risk adjusted Assets
- C. Sub-standard Assets
- D. Investments

Answer: B

77. Which of the following statement is not correct?

- A. P/V ratio can be improved by reducing fixed cost.
- B. Contribution is also known as Gross margin.
- C. P/V ratio can be improved by increasing the selling price.
- D. Margin of safety can be improved by reducing fixed

Answer: B

Explanation:

- a) $P/V \text{ ratio} = \frac{\text{Change in profit}}{\text{Change in sales}}$
- b) $P/V \text{ ratio} = \frac{\text{Profit}}{\text{Margin of safety ratio}}$
- c) $P/V \text{ ratio} = \frac{\text{Contribution}}{\text{Sales}}$

As per above three formula point a , c and d is true.

78. In the context of Standard Costing; Basic Standard is established for

- (A) short period
- (B) current period
- (C) indefinite period
- (D) pre-defined period

Answer: C

Explanation: Basic standard can be defined as the standard which is unaltered and is used over for a longer period of time and do not reflect current conditions. It is also known as the fixed or static standard.

79. Read the following statements:

- (i) Marginal costing and Absorption costing are the same.
- (ii) For decision making, absorption costing is more suitable than marginal costing.
- (iii) Cost-volume-profit relationships also denote break-even point.
- (iv) Marginal costing is based on the distinction between fixed and variable costs.

Which of the following combinations gives true statements with regard to above?

- A. (i) & (ii)
- B. (ii) & (iii)
- C. (iii) & (iv)
- D. (iv) & (ii)

Answer: D

Explanation: Cost- Volume- Profit (CVP) analysis is a technique for studying the relationship between cost, volume and profit. The CVP relationship is an important tool used for the profit planning of a business. In marginal costing cost is divided into fixed and variable. Fixed cost is excluded from product. As such, management can control marginal cost effectively.

80. Consider the given particulars given below:

Sales Rs. 60000

Variable cost Rs. 25000

Fixed Cost Rs. 30000

Based on these data, the operating leverage shall be

- A. 5
- B. 7
- C. 8
- D. 9

Answer: B

Explanation: $DOL = \text{Contribution} / \text{EBIT}$

Contribution = sales – Variable cost = Rs. 35000

EBIT = Contribution – Fixed Cost = Rs. 5000

$DOL = 35000 / 5000 = 7$

81. Determine Working capital turnover ratio if, Current assets is Rs 1,50,000, current liabilities is Rs 1,00,000 and Cost of goods sold is Rs 3,00,000.

- A. 5 times
- B. 6 times
- C. 3 times
- D. 1.5 times

Answer: B

Explanation: Working capital turnover ratio = $\text{COGS} / \text{Working capital}$

$300000 / 50000 = 6 \text{ times}$

Working capital = $\text{CA} - \text{CL} = \text{Rs. } 50000$

82. What will be the Gross Profit if, total sales is Rs 2,60,000, cost of net goods sold is Rs 2,00,000 and sales return is Rs 10,000?

- A. 13%
- B. 28%
- C. 26%
- D. 20%

Answer: D

Explanation: G.P Ratio = $\text{GP} / \text{Sales} \times 100$

$50000 / 250000 \times 100$

20%

$\text{GP} = \text{Sales} - \text{GOGS}$

$= (260000 - 10000) - 200000$

Rs. 50000

83. Which of the following are limitations of ratio analysis?

- A) Ratio analysis may result in false results if variations in price levels are not considered.
- B) Ratio analysis ignores qualitative factors.
- C) Ratio Analysis ignores quantitative factors.
- D) Ratio Analysis is historical analysis.

A. A, B and D

B. A, C and D

C. A, B and C

D. A, B, C, D

Answer: A

Explanation:

- It only explains information regarding the past and users are usually interested to know more about current and future situation.
- While computing the financial ratios, only quantitative analysis is highlighted while the qualitative factors are ignored.
- The calculation methodology of different ratios may differ from organisation to organisation.
- The limitations in the financial statements often affect the financial ratio analysis and it is one of its major disadvantages. For examples Window Dressing in Balance Sheet.

- Financial ratio analysis is useful only when comparison is made between two companies from the same industries. If comparison is not possible then no benefits will be received from ratio analysis.
- Price level changes is not considered in case of Ratio analysis
- It is always a challenging job to find an adequate standard. The conclusions drawn from the ratios can be no better than the standards against which they are compared.

84. Which of the following are applications of funds?

- a. Payment of dividend on share capital
- b. Payment of tax
- c. Increase in working capital
- d. All of the above

Answer: D

Explanation: Application of fund means outflow of funds i.e. the items for which organisations needs to pay.

85. Which of the following are sources of funds?

- A. Issue of bonus shares
- B. Issue of shares against the purchase of fixed assets
- C. Conversion of debentures into shares
- D. Conversion of loans into shares

- a. A and C
- b. A and D
- c. A, B, C and D
- d. None of the above

Answer: D

Explanation: Sources of funds means inflow of fund i.e. the items for which the organisation received from outside.

86. In the context of Funds Flow Analysis, the word “funds” is used to define

- A. Net Working capital
- B. Total current assets-Total current liabilities
- C. Both a and b
- D. None of the above

Answer: C

Explanation: In narrow sense fund means **cash**. In broader sense fund means **all the financial resources** used in the business. In popular sense funds means **working capital**.

87. The objectives of Cash Flow Statement are

- A) Analysis of cash position
- B) Short-term cash planning
- C) Evaluation of liquidity
- D) Comparison of operating Performance
- A. Both A and B
- B. Both A and C
- C. Both B and D
- D. A, B, C, D

Answer: D

Explanation:

- Cash flow statement helps in planning the repayment of loans, replacement of fixed assets and other similar long-term planning of cash.
- A comparison of the historical and projected cash flow statements can be made so as to find the variations and deficiency or otherwise in the performance so as to enable the firm to take immediate and effective action.
- Since a cash flow statement is based on the cash basis of accounting, it is very useful in the evaluation of cash position of a firm.

88. In which condition a partnership firm is deemed to be dissolved?

- A. On a partner's admission
- B. On retirement of a partner
- C. On expiry of the period of partnership
- D. On loss in partnership

Answer: C

Explanation: Partnership formed for a fixed term will get dissolved once the term gets over.

89. Court can make an order to dissolve the firm when:

- A. Some partner has become fully mad
- B. Partnership deed is fully followed
- C. Continued future profits are expected
- D. Firm is running legal business

Answer: A

Explanation:

- In the case where a partner becomes insane
- In the case where a partner becomes permanently incapable of performing his duties.
- When a partner becomes guilty of misconduct and it affects the firm's business adversely.
- When a partner continuously commits a breach of the partnership agreement.
- In a case where a partner transfers the whole of his interest in the partnership firm to a third party.
- In a case where the business cannot be carried on except loss.
- When the court regards the dissolution of the firm to be just and equitable on any ground.

90. Sleeping partners are those who

- A. take active part in the conduct of the business but provide no capital. However, salary is paid to them.
- B. do not take any part in the conduct of the business but provide capital and share profits and losses in the agreed ratio
- C. take active part in the conduct of the business but provide no capital. However, share profits and losses in the agreed ratio.
- D. do not take any part in the conduct of the business and contribute no capital. However, share profits and losses in the agreed ratio.

Answer: B

Explanation: A sleeping partner is a partner who 'sleeps', that is, he does not take active part in the management of the business. Such a partner only contributes to the share capital of the firm, is bound by the activities of other partners, and shares the profits and losses of the business.

91. Given production is 1,00,000 units, fixed costs is Rs 2,00,000 Selling price is Rs 10 per unit and variable cost is Rs 6 per unit. Determine profit using technique of marginal costing.

- A. Rs 2,00,000
- B. Rs 8,00,000
- C. Rs 6,00,000
- D. None of the above

Answer: A

Explanation: Contribution = Sales - Variable cost = $1000000 - 600000 = 400000$
Profit = Contribution - Fixed Cost = $400000 - 200000 = \text{Rs. } 200000$

92. While selecting optimum product mix _____ is the real index of profitability.

- A. Contribution per unit
- B. Contribution per unit of key factor
- C. Profit and sales
- D. None of the above

Answer: B

Explanation: The most-profitable product mix can be determined by applying marginal costing technique. Fixed cost remaining constant, the most profitable product-mix is determined on the basis of contribution only. That product-mix which gives maximum contribution is to be considered as best product mix.

93. X, Y, and Z are partners in a company sharing profits in the ratio 4:3: 2. Their balance sheet as at 31-3-2016 showed a debit balance of Profit and Loss A/c ₹1,80,000. From 1-4-2016 they will share profits equally. In the journal entry to give effect to the above arrangement when X, Y, and Z decide not to close the profit and loss account.

- A. Dr X by ₹ 20,000, Cr Z by ₹20,000
- B. Cr X by ₹ 20,000, Dr Z by ₹20,000
- C. Dr X by ₹ 40,000, Cr Z by ₹40,000
- D. Cr X by ₹ 20,000, Dr Z by ₹20,000

Answer: A

Explanation:

Old ratio,

X:Y:Z= 4:3:2

New Ratio,

X:Y:Z= 1:1:1

Sacrificing Ratio= Old Ratio –New Ratio

$X=4/9-1/3=4-3/9=+1/9$

$Y=3/9-1/3=3-3/9=0$

$Z=2/9-1/3=2-3/9=-1/3$

Only X, has gain and Z has sacrificed,

Journal entry will be,

X,s Capital ----A/c---Dr. $180000 \times 1/9=20000$

To, Z Capital A/c 20000

94. A budgeting process which demands each manager to justify his entire budget in detail from beginning is

- A. Functional budget
- B. Master budget
- C. Zero base budgeting
- D. None of the above

Answer: C

Explanation: Zero based budgeting in management accounting involves preparing the budget from the scratch with a zero-base. It involves re-evaluating every line item of cash flow statement and justifying all the expenditure that is to be incurred by the department.

95. _____ is prepared for single level of activity and single set of business conditions.

- A. Fixed budget
- B. Flexible budget
- C. Both a and b
- D. None of the above

Answer: A

Explanation: A fixed budget is a budget that doesn't change due to any change in activity level or output level.

96. Which of the following statement is correct?

- A. The amount of Goodwill or Capital Reserve is found out in the books of purchasing company only
- B. The amount of Goodwill or Capital Reserve is found out in the books of vendor company only.
- C. $\text{Goodwill} = \text{Net Assets} - \text{Purchase price}$
- D. The face value of shares of purchasing company will be taken in to account while calculating purchase consideration.

Answer: A

Explanation: In the books of purchasing company
When assets and liabilities taken over are recorded

Sundry assets a/c –Dr.

Goodwill a/c---Dr.(Balancing figure)

To, Sundry liabilities a/c

To Business Purchase a/c

To, Capital Reserve a/c(Balancing figure)

97. If opening stock = Rs. 2, 45, 000; purchases = Rs. 15, 00, 000; sales = Rs. 17, 40, 000 and rate of gross profit = 20% on cost of goods sold, then the closing stock would be at

- A. Rs. 3, 53, 000
- B. Rs. 2, 95, 000
- C. Rs. 2, 45, 000
- D. Rs. 1, 95, 000

Answer: B

Explanation: Sales= COGS+ Gross profit

Or, $1740000 = \text{COGS} + 290000$ (i.e. $1740000 \times 20/120$)

Or, $\text{COGS} = 1450000$

$\text{COGS} = \text{Opening Stock} + \text{Purchase} - \text{Closing Stock}$

Or, $1450000 = 245000 + 1500000 - \text{C/S}$

$\text{C/S} = 295000$

98. Management audit is done by

- A. Chartered Accountant
- B. Company secretary
- C. Manager
- D. Any Qualified Person

Answer: D

Explanation: Management Audit is generally conducted by the employee of the company or by the independent consultant and focused on the critical evaluation of management as a team rather than appraisal of individual. So, it can be conducted by any independent person having knowledge of management.

99. Which of the following cannot be appointed as cost auditor?

- A. Employee of company
- B. A company
- C. Financial audit of company
- D. All of the above

Answer: D

Explanation: A cost Accountant in practice or a firm of cost accountants can be appointed as a cost auditor. A cost accountant holding certificate of practiced on part time basis is not entitled to conduct cost audit. Thus, only a cost accountant in whole-time practice can conduct cost audit.

100. Safety audit is mandatory for

- A. Manufacturing industries
- B. Hazardous industries
- C. Textile industries
- D. Mining industries

Answer: B

Explanation: As per IS 14489, (Code of practice on occupational safety and health audit)
“Safety audit is mandatory for hazardous industries in India)



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Unit- 3

Business Economics

1. When the demand curve is relatively highly elastic, the marginal revenue is

- (A) Zero
- (B) Unity
- (C) Positive
- (D) Negative

Answer: (C)

Explanation: The connection between marginal revenue and elasticity works like this: If the demand is elastic, then marginal revenue is positive. If the demand is inelastic, then marginal revenue is negative. If demand is unit elastic, then marginal revenue is zero.

2. In which one of the following market situations the practice of price rigidity is found?

- (A) Perfectly competitive market
- (B) Monopolistic competitive market
- (C) Oligopoly market
- (D) Discriminating monopoly market

Answer: (C)

Explanation: The low elasticity does not increase the demand significantly as a result of the price cut. This asymmetrical behavioural pattern results in a kink in the demand curve and hence there is price rigidity in oligopoly markets.

3. During short-run, the optimum level of output corresponds to that level of output where

- (A) MC is the minimum
- (B) AVC is the minimum
- (C) AC is the minimum
- (D) AFC stops declining

Answer: (C)

Explanation: In the short run the levels of usage of some input are fixed and costs associated. This curve indicates the firm's total cost of production for each level of output. Average variable cost first falls, reaches a minimum point.

4. The opportunity cost is a term which describes

- (A) A bargain price for a factor of production.
- (B) Production cost related at the optimum level of production.
- (C) Average variable cost.
- (D) The loss of the reward in the next best use of that resource.

Answer: (D)

Explanation: Opportunity cost is the return of a foregone option less than the return on your chosen option. Considering opportunity costs can guide you to more profitable decision-making.

5. Which one of the following is not the basic assumption of Cardinal Utility analysis?

- (A) Rationality of Consumer.
- (B) Utility cardinally measurable.
- (C) Diminishing marginal utility of money.
- (D) Hypothesis of independent utilities.

Answer: (C)

Explanation: An important assumption of cardinal utility analysis is that when a consumer spends varying amount on a good or various goods or when the price of a good changes, marginal utility of money remains unchanged.

6. Which one of the following is not a property of indifference curve?

- (A) Negatively sloping.
- (B) Convex to the point of origin.
- (C) Indifference curves necessarily have to be parallel.
- (D) Two indifference curves do not intersect each other.

Answer: (C)

Explanation: There are four important properties of indifference curves that describe most of them: (1) They are downward sloping, (2) higher indifference curves are preferred to lower ones, (3) they cannot intersect, and (4) indifference curves are convex (i.e. bowed inward)

7. Find the correct matching between items of List-I and the items of List-II.

List – I

- (a) Increase in demand
- (b) Contraction of demand
- (c) Cross demand satisfy one specific want.
- (d) Joint demand the prices of another related commodity

List – II

- (i) Leftward movement along the demand curve.
- (ii) Rightward shift of the demand curve.
- (iii) Demand of more than one commodity to
- (iv) Demand of one commodity with changes in

Codes:

- (i) (ii) (iii) (iv)
- (A) (b) (a) (d) (c)
- (B) (a) (b) (c) (d)
- (C) (b) (a) (c) (d)
- (D) (a) (b) (d) (c)

Answer: (A)

8. According to the Law of Variable Proportions, the second stage of production ends when
- (A) Marginal productivity of the variable input becomes maximum.
 - (B) Both marginal productivity and average productivity of the variable input are equal.
 - (C) Marginal productivity of the variable input becomes zero and average productivity is positive.
 - (D) Marginal productivity of the variable input is negative but average productivity is positive.

Answer: (C)

Explanation: In stage 2, the total product continues to increase at a diminishing rate until it reaches its maximum point where the second stage ends. In this stage both the marginal product and the average product of the variable factor are diminishing but remain positive.

9. Total Revenue (TR) function and the Total Cost (TC) function of a perfectly competitive market firm are as follows:

$$TR = 480Q - 8Q^2$$

$$TC = 400 + 8Q^2$$

The profit maximizing output would be:

- (A) 60
- (B) 15
- (C) 50
- (D) None of the above

Answer: (B)

Explanation: $TR = 480Q - 8Q^2$

$$TC = 400 + 8Q^2 = 400 + 8 \times 60^2 = 400 + 28800 = 29200, \text{ when output is } 60$$

$$TR = 480 \times 60 - 8 \times 60^2 = 28800 - 28800 = 0 \text{ here profit is negative}$$

$$TC = 400 + 8Q^2 = 400 + 8 \times 15^2 = 400 + 1800 = 2200, \text{ when output is } 15$$

$$TR = 480 \times 15 - 8 \times 15^2 = 7200 - 1800 = 5400, \text{ profit} = 5400 - 2200 = 3200$$

$$TC = 400 + 8Q^2 = 400 + 8 \times 50^2 = 400 + 20000 = 20400, \text{ when output is } 50$$

$$TR = 480 \times 50 - 8 \times 50^2 = 24000 - 20000 = 4000 \text{ Loss} = 4000 - 20400 = 16400$$

10. Assertion (A): Mark-up pricing is a method of determining price.

Reason (R): $P = ATC + (m \times ATC)$ is the expression for that.

Codes:

- (A) (A) is correct but (R) is not correct.
- (B) Both (A) and (R) are correct.
- (C) Both (A) and (R) are not correct.
- (D) (R) is correct, but (A) is not correct.

Answer: (B)

Explanation: Markup Pricing: Refers to a pricing method in which the fixed amount or the percentage of cost of the product is added to product's price to get the selling price of the product. Markup pricing is more common in retailing in which a retailer sells the product to earn profit.

11. Match the items of List-I with the items of List-II and select the correct answer.

List – I

- (a) Economic profit
- (b) Accounting profit
- (c) Collusion/ Cartel
- (d) Market

List – II

- (i) Total Revenue Explicit cost
- (ii) Buyers and Sellers exchanging
- (iii) Total Revenue – Total cost
- (iv) Oligopoly

Codes:

- (a) (b) (c) (d)
- (A) (iii) (i) (iv) (ii)
- (B) (i) (ii) (iii) (iv)
- (C) (iv) (iii) (ii) (i)
- (D) (ii) (iv) (i) (iii)

Answer: (A)

12. Which one is not the item of economic cost to the business?

- (A) Owner supplied resources.
- (B) Market supplied resources.
- (C) Implicit costs.
- (D) Non-monetary opportunity costs of using owner supplied resources.

Answer: (B)

Explanation: **Economic cost** is the combination of losses of any goods that have a value attached to them by any one individual. Economic cost is used mainly by economists as means to compare the prudence of one course of action with that of another. The factors to be taken into consideration are money, time, and other resources cost is the sum of explicit cost.

The comparison includes the gains and losses precluded by taking a course of action as well as those of the course taken itself. Economic cost differs from accounting cost because it includes opportunity cost. (Some sources refer to accounting cost as explicit cost and opportunity cost as implicit cost.)

13. Demand must have the elements

- (A) Desire
- (B) Want
- (C) Quantity, Price and Time
- (D) All of the above

Answer: (D)

Explanation: In economics, demand is the quantity of a good that consumers are willing and able to purchase at various prices during a given period of time. The relationship between price and quantity demanded is also known as the demand curve.

14. Match the items of List-I and items of List-II and select the correct code for the answer.

List – I

- (a) Utilitarian Approach
- (b) Ordinal Approach
- (c) Price- Consumption Curve
- (d) Consumer Equilibrium

List – II

- (i) Marginal Rate of Substitution
- (ii) Budget line & Indifference Curve
- (iii) $U=f(x, y)$
- (iv) $MRS_{xy} = MRS_{yx}$

Codes:

- (a) (b) (c) (d)
- (A) (i) (iv) (iii) (ii)
- (B) (ii) (iii) (iv) (i)
- (C) (iii) (i) (ii) (iv)
- (D) (iv) (ii) (i) (iii)

Answer: (C)

15. The Learner Index measures

- (A) Market power
- (B) Price
- (C) Price-Marginal cost
- (D) None of the above

Answer: (A)

Explanation: Lerner index, in economics, a measure of the market power of a firm. Essentially, the index measures the percentage markup that a firm is able to charge over its marginal cost.

16. Match the items of List-I and items of List-II and select the correct answer.

List – I

- (a) Perfect competition
- (b) Monopolistic competition
- (c) Oligopoly
- (d) Discriminating Monopoly

List – II

- (i) Different prices for the same product
- (ii) Dominant strategy
- (iii) Product differentiation
- (iv) Identical product

Codes:

- (a) (b) (c) (d)
- (A) (iv) (iii) (ii) (i)
- (B) (i) (ii) (iii) (iv)
- (C) (ii) (iv) (i) (iii)
- (D) (iii) (i) (iv) (ii)

Answer: (A)

17. Which among the following is not rightly explained?

- (i) M_1 = Currency with the public + demand deposits of the public.
- (ii) $M_2 = M_1$ + Post Office Savings Deposits.
- (iii) $M_3 = M_1$ + Time Deposits of the public with Banks.
- (iv) $M_4 = M_3$ + Total Post Office Deposits.
- (v) M_1 = Narrow money
- (vi) M_3 = Broad money
- (A) Only (v) and (vi)
- (B) Only (i) and (iii)
- (C) Only (vi)
- (D) None of the above

Answer: (D)

Explanation: Reserve Money = Currency in circulation + Bankers' deposits with the RBI + 'Other' deposits with the RBI = Net RBI credit to the Government + RBI credit to the commercial sector + RBI's claims on banks + RBI's net foreign assets + Government's currency liabilities to the public – RBI's net non-monetary liabilities M_1 = Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI. $M_2 = M_1$ + Savings deposits of post office savings banks $M_3 = M_1$ + Time deposits with the banking system = Net bank credit to the Government + Bank credit to the commercial sector + Net foreign exchange assets of the banking sector + Government's currency liabilities to the public – Net non-monetary liabilities of the banking sector $M_4 = M_3$ + All deposits with post office savings banks (excluding National Savings Certificates).

18. Assertion (A): Want-satisfying power of a commodity is called its utility.

Reason (R): Utility may not have the characteristic of morality.

Codes:

- (A) Both (A) and (R) are correct.
- (B) (A) is correct, but (R) is not correct.
- (C) Both (A) and (R) are not correct.
- (D) (R) is correct, but (A) is not correct.

Answer: (A)

Explanation: The want satisfying power of a commodity is called utility. It is a quality possessed by a commodity or service to satisfy human wants. Utility can also be defined as value-in-use of a commodity because the satisfaction which we get from the consumption of a commodity is its value-in-use.

19. Match the items of List-I with those in List-II and select the correct code for the answer:

List – I

- (a) Contraction of Demand
- (b) Decrease in Demand
- (c) Increase in Demand
- (d) Expansion of Demand

List – II

- (i) Non-Price change effect
- (ii) Demand curve remains the same
- (iii) Price change effect
- (iv) Shifts the Demand curve

Codes:

- (a) (b) (c) (d)
- (A) (iii) (i) (iv) (ii)
- (B) (iv) (iii) (ii) (i)
- (C) (i) (ii) (iii) (iv)
- (D) (ii) (iv) (i) (iii)

Answer: (A)

20. Assertion (A): As the proportion of one variable factor in a combination with fixed factor is increased, after a point the marginal product of the factor will diminish.

Reason (R): Beyond the level of optimum combination of inputs leads to this.

Codes:

- (A) (R) is appropriate reason of (A).
- (B) (R) is not appropriate reason of (A).
- (C) (A) and (R) are not related with each other.
- (D) (A) is independent of (R).

Answer: (A)

Explanation: When the various factors are required to be used in rigidly fixed proportions, then the increase in one factor would not lead to any increase in output, that is, the marginal product of the factor will then be zero and not diminishing.

21. Match the items of List-I with the items of List-II and select the correct answer.

List – I

- (a) Indifference Curve
- (b) Demand Curve
- (c) Perfect Competition
- (d) Price Leadership

List – II

- (i) Slopes downward to the right
- (ii) $P=AR=MR=d$
- (iii) Oligopoly
- (iv) Convex to the origin

Codes:

- (a) (b) (c) (d)
- (A) (ii) (iii) (iv) (i)
- (B) (iii) (iv) (i) (ii)
- (C) (iv) (i) (ii) (iii)
- (D) (i) (ii) (iii) (iv)

Answer: (C)

22. Price, Marginal Revenue and Elasticity are related to each other. When $e = 1$, then:

- (A) $MR > 0$
- (B) $MR < 0$
- (C) $MR = 0$
- (D) $MR = 1$

Answer: (C)

Explanation: AR is the ratio of TR to total output. Besides, AR is nothing but the price. Thus, it is clear that at different levels of output where elasticity of demand is greater than one, the marginal revenue will be positive. On the other hand, if the elasticity of demand is equal to one, in that case the $MR = 0$.

23. Match the items of List – I with the items of List – II and select the correct code for the answer:

List – I

- (a) Multiple plants
- (b) Cost-plus pricing
- (c) Multiple markets
- (d) Multiple products

Codes:

- (a) (b) (c) (d)
- (A) (iv) (ii) (i) (iii)
- (B) (i) (iii) (iv) (ii)
- (C) (ii) (i) (iii) (iv)
- (D) (iii) (iv) (ii) (i)

Answer: (D)

List – II

- (i) $MRP_T = MC = MRP_X = MRP_{PY}$
- (ii) $MRT = MC = MR_1 = MR_2$
- (iii) $MR = MC_T = MC_A = MC_B$
- (iv) $P = (1 + m) ATC$

24. A measure of the responsiveness of quantity demanded to changes in the price of a related good is known as

- (A) Cross Elasticity of Demand
- (B) Substitution Elasticity of Demand
- (C) Complementary Elasticity of Demand
- (D) Price Elasticity of Demand

Answer: (A)

Explanation: A measure of the responsiveness of quantity demanded to changes in the price of a related good is known as cross elasticity of demand. Cross elasticity of demand is calculated by dividing the proportionate change of quantity demanded of one commodity by the proportionate change of price of another commodity.

26. If the total cost is Rs. 260 and the total variable cost is Rs. 60, what will be total fixed cost if output is (a) 100 units and (b) 200 units?

- (A) Rs. 200 and Rs. 200
- (B) Rs. 100 and Rs. 200
- (C) Rs. 260 and Rs. 100
- (D) Rs. 160 and Rs. 100

Answer: (A)

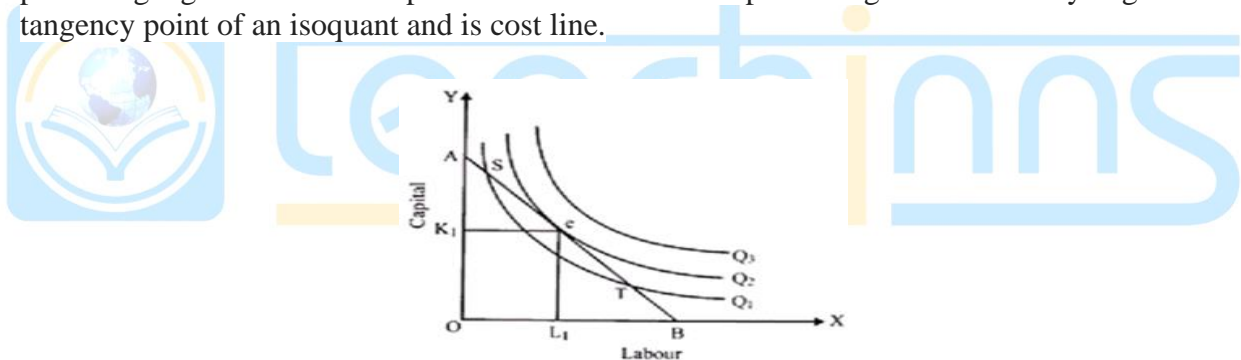
Explanation: We know that fixed cost is not change with the change in output it is fixed for a certain limit of production or for a specific time. So, for both the cases fixed cost will be same.

27. Optimal input combination to minimize the cost for a given output will be at the point where:

- (A) Isocost is tangent to Isoquant
- (B) MRTS between inputs is equal
- (C) Any movement from optimum point will lead to low level of output
- (D) All the above conditions are fulfilled.

Answer: (D)

Explanation: That optimal combination of inputs required for a firm to minimise the cost of producing a given level of output or to maximise the output for a given cost outlay is given at tangency point of an isoquant and is cost line.



28. What kinds of actions can be taken to put the rivals at a disadvantageous position under oligopoly market?

- (A) Commitments
- (B) Threats
- (C) Promises
- (D) All the above

Answer: (D)

Explanation: Under oligopoly, two types of conflicting attitudes are found in the firms. On the one hand, firms realize the disadvantages of mutual competition and desire to combine to maximize their joint profits. This tendency leads to the formation of collusion. On the other hand, the desire to maximize one's individual profit may lead to conflict and antagonism, the firms come into clash with one another on the question of distribution of profits and allocation of markets. Thus, there is an existence of two opposing attitudes among the firms.

29. There is no exceptions to the law of demand in the case of

- (A) Giffen goods
- (B) Normal goods
- (C) Articles of conspicuous consumption
- (D) Ignorance of the buyer

Answer: (B)

Explanation: There are two exceptions to the Law of Demand. Giffen and Veblen goods are exceptions to the Law of Demand. However, they are extreme cases and can be quite difficult to prove. But economists generally agree that there are rare cases where the Law of Demand is violated.

30. What is the degree of elasticity of demand in case the demand is represented by a straight line parallel to the x-axis?

- (A) $e > 1$
- (B) $e = 0$
- (C) $e = \infty$
- (D) $e < 1$

Answer: (C)

Explanation: The price and quantity demanded are measured along the Y-axis and X-axis respectively. The demand curve DD is a horizontal straight line parallel to the X-axis. It shows that negligible change in price causes infinite fall or rise in quantity demanded.

31. Business Economics is a subject which

- (A) Studies economic relationships
- (B) Studies economic activities at the aggregate level
- (C) Deals with the tools of economics used for decision making in business
- (D) Studies optimum allocation of limited resources

Answer: (C)

Explanation: Business economics is a field of applied economics that studies the financial, organizational, market-related, and environmental issues faced by corporations. The emphasis in business economics is on normative theory. Business economic seeks to establish rules which help business firms attain their goals

32. Match List – I with List – II and select the correct code for the answer:

List – I

- (a) Cross elasticity is zero
- (b) Shut-down point
- (c) Slutsky theorem
- (d) Production Possibility Curve

List – II

- (i) Price = AVC
- (ii) Two commodities are independent
- (iii) Transformation line
- (iv) Substitution effect

Codes: (a) (b) (c) (d)

- (A) (ii) (iv) (i) (iii)
- (B) (iii) (ii) (iv) (i)
- (C) (i) (iii) (ii) (iv)
- (D) (ii) (i) (iv) (iii)

Answer: (D)

33. Assertion (A): The demand curve has negative slope showing inverse relationship between price and the quantity demanded.

Reason (R): This applies only to Giffen goods.

Codes:

- (A) Both (A) and (R) are true.
- (B) (A) is true, but (R) is false.
- (C) (A) is false, but (R) is true.
- (D) Both (A) and (R) are false.

Answer: (B)

Explanation: The demand curve generally slopes downward from left to right. It has a negative slope because the two important variables price and quantity work in opposite direction. Thus, a decrease in price brings about an increase, in demand. The demand curve, therefore, is downward sloping.

A Giffen good has an upward-sloping demand curve which is contrary to the fundamental laws of demand which are based on a downward sloping demand curve. Demand for Giffen goods is heavily influenced by a lack of close substitutes and income pressures.

34. The consumer is said to be in equilibrium when he plans his expenditure on x, y and z commodities in such a way that he ultimately attains:

- (A) $MU_x = MU_y = MU_z$
- (B) $MU_x / P_x = MU_y / P_y = MU_z / P_z$
- (C) $MU_x / P_x = MU_y / P_y = MU_z / P_z = MU_m$
- (D) $MU_x / P_x < MU_y / P_y < MU_z / P_z < MU_m$

Answer: (C)

Explanation: The optimum purchase of the consumer or the consumer's equilibrium. A consumer buys a commodity up to that amount at which its price is equal to its marginal utility. In the case of purchase of many commodities, maximum satisfaction requires the allocation of income in such a way that the marginal utilities of units of various goods bought are proportional to their prices. So, in equilibrium, the marginal utilities of the different commodities purchased are proportional to their prices and these ratios of marginal utility to price must be equal to the common marginal utility of money.

35. Match the items in List – I with those in List – II and select the correct code for the answer:

List – I

- (a) Monopoly
- (b) Monopolistic competition
- (c) Perfect competition
- (d) Oligopoly

Codes: (a) (b) (c) (d)

- (A) (ii) (iii) (i) (iv)
- (B) (i) (ii) (iv) (iii)
- (C) (iii) (iv) (ii) (i)
- (D) (iv) (i) (iii) (ii)

Answer: (A)

List – II

- (i) Price Taker
- (ii) Homogeneous product's price maker
- (iii) Heterogeneous product
- (iv) Price Rigidity

36. Assertion (A): Business Economics is tool centric facilitating decision making in business.

Reason (R): It provides an analytical understanding of economic activities.

Codes:

(A) Both (A) and (R) are not correct.

(B) Both (A) and (R) are correct.

(C) (A) is true, but (R) is false.

(D) (R) is true, but (A) is false.

Answers: (B)

Explanation: Managerial Economics refers to the application of economic theory and the tools of decision science to examine how an organisation can achieve its aims or objectives most efficiently. Managerial Economics is a link between two disciplines, which are management and economics. The management discipline focuses on a number of principles that aid the decision-making process of organizations. On the other hand, economics is related to the optimum allocation of limited resources for attaining the set objectives of organizations.

37. Demand has the following elements:

(A) Quantity

(B) Price

(C) Time

(D) All the above

Answers: (D)

Explanation: Demand may be defined as the quantity of a commodity that a consumer is able and willing to buy, at each possible price, over a given period of time. Essential elements of demand are Quantity, Ability & Willingness, Prices and period of time

38. A perfectly competitive firm attains equilibrium when

(A) $AC = AR$

(B) $MR = MC$

(C) $MC = AC$

(D) $TC = TR$

Answers: (B)

Explanation: This is because, until $MR > MC$, it keeps on adding to profits. Production is stopped only when MR becomes equal to MC . MR is the addition to TR from the sale of one more unit. MC is the addition to TC when an additional unit is produced. Thus when $MR = MC$, $TR - TC$ becomes maximum for maximum profit.

39. Which one of the following is not correct about the price discrimination by a monopolist, who intends to

- (A) Maximise the sale/profit
- (B) Share the consumer's surplus
- (C) Increase the welfare of muss
- (D) Reduce the welfare of muss

Answer: (C)

Explanation: Refers to a price discrimination in which a monopolist charges the maximum price that each buyer is willing to pay. This is also known as perfect price discrimination as it involves maximum exploitation of consumers. In this, consumers fail to enjoy any consumer surplus.

40. Which of the following refers to Perfect Competition?

- (i) There are restrictions on buyers and sellers
 - (ii) There are no restrictions on movement of goods
 - (iii) There are no restrictions on factors of production Correct one is
- (A) only (i) and (ii)
 - (B) only (ii) and (iii)
 - (C) only (i) and (iii)
 - (D) only (i)

Answer: (B)

Explanation: A perfectly competitive market is characterized by many buyers and sellers, undifferentiated products, no transaction costs, no barriers to entry and exit, and perfect information about the price of a good.

41. Assertion (A): Total utility will be maximum when marginal utility to price of respective products are equal.

Reason (R): Deviation from this situation leads to reduction in maximum utility.

- (A) (A) and (R) are not correct.
- (B) (A) is correct but (R) is not correct.
- (C) (A) and (R) are correct.
- (D) (A) is incorrect, (R) is correct.

Answer: (C)

Explanation: Total utility will increase and reach its maximum point when , $MU(\text{marginal utility}) = P(\text{price of the given product})$ Beyond this point MU will be less than P. Hence, this situation will reduce the marginal utility derived from the consumption of an additional unit of the product.

42. Match List-I with List-II and select the correct answer.

List – I

- (i) Survival
- (ii) R.O.I
- (iii) Growth
- (iv) Innovation

List – II

- (a) Economic Objective
- (b) Natural Urge
- (c) Business Purpose
- (d) Primary Objective

Codes :

- (a) (b) (c) (d)
- (A) (ii) (iii) (iv) (i)
- (B) (ii) (i) (iii) (iv)
- (C) (i) (ii) (iii) (iv)
- (D) (iv) (iii) (ii) (i)

Answer: (A)

43. Consider the oligopoly models:

- (i) Sweezy's kinked demand curve model
 - (ii) Newman and Morgenstern Game Theory model
 - (iii) Cournot's duopoly model
 - (iv) Baumol's sales maximization model
- Arrange them in correct sequence as per order of evolution.

Codes :

- (A) (iv), (iii), (ii), (i)
- (B) (ii), (i), (iii), (iv)
- (C) (iii), (i), (ii), (iv)
- (D) (i), (iii), (ii), (iv)

Answer: (C)

44. When average cost is declining

- (A) Marginal cost must be declining.
- (B) Marginal cost must be above average cost.
- (C) Marginal cost must be below average cost.
- (D) Marginal cost must be rising.

Answer: (C)

Explanation: When average cost is declining as output increases, marginal cost is less than average cost. When average cost is rising, marginal cost is greater than average cost. When average cost is neither rising nor falling (at a minimum or maximum), marginal cost equals average cost.

45. 'Kinked' demand curve is related with

- (A) Monopoly
- (B) Discriminating monopoly
- (C) Oligopoly
- (D) Perfect competition

Answer: (C)

Explanation: The Kinked-Demand curve theory is an economic theory regarding oligopoly. Kinked demand was an initial attempt to explain sticky prices.

46. If price of any commodity decreases by 20% and the demand for that commodity increases by 40%, then elasticity of demand would be

- (A) Perfectly elastic
- (B) Perfectly inelastic
- (C) Unit elastic
- (D) Highly elastic

Answer: (D)

Explanation: The law of demand says that when the price of a good increase the quantity demanded of that good decreases. Elasticity measure the degree of change between price and quantity demanded. If a good is highly elastic then even a small change in price creates a relatively larger change in the quantity demanded of that good.

47. Which of the following statements is true?

- (A) In case of inferior goods, the income effect is negative, although the substitution effect is positive.
- (B) In inferior goods, the income and substitution effects are positive.
- (C) In inferior goods, the income and substitution effects are negative.
- (D) In case of inferior goods, the income effect is positive although the substitution effect is negative.

Answer: (A)

Explanation: For normal goods, the income effect is positive. For the inferior good in which case income effect is negative, income effect of the price change will work in opposite direction to the substitution effect. The net effect of the price change will then depend upon the relative strengths of the two effects.

48. In perfect competition, the demand curve of a firm is

- (A) Vertical
- (B) Horizontal
- (C) Positively sloped
- (D) Negatively sloped

Answer: (B)

Explanation: Demand Curve for a Firm in a Perfectly Competitive Market: The demand curve for an individual firm is equal to the equilibrium price of the market. The market demand curve slopes downward, while the perfectly competitive firm's demand curve is a horizontal line equal to the equilibrium price of the entire market.

49. The Comparative Cost Advantage Theory was given by

- (A) David Ricardo
- (B) Adam Smith
- (C) Raymond Vernon
- (D) Michael E. Porter

Answer: (A)

Explanation: Theory of Comparative Cost Advantage, given by Ricardo was a significant modification over Smith's Theory of Absolute Cost Advantage. The Smith's theory itself was a significant departure from the existing wisdom - Mercantilist's, as it suggests when two nations trade both stand to gain.

50. Assertion (A): Marginal cost and differential cost do not convey the same meaning in all the circumstances.

Reason (R): Differential cost increases or decreases due to change in fixed cost.

Codes:

- (A) (A) is true but (R) is false
- (B) (A) is false but (R) is true
- (C) (A) and (R) are correct and (R) is correct explanation of (A).
- (D) Both (A) and (R) are correct, but (R) is not the correct explanation of (A).

Answer: (C)

51. A commodity is used for multiple purposes, and then the demand for it is known as

- (A) Joint Demand
- (B) Composite Demand
- (C) Direct Demand
- (D) Autonomous Demand

Answer: (B)

Explanation: A commodity is said to have a composite demand when its use is made in more than one purpose. For example, the demand for coal is composite demand as coal has many uses—as fuel for a boiler of a factory, for domestic fuel, for oven for steam-making in railways engine, etc.

52. Match List-I with List-II and select the correct answer.

List-I

- 1. Administered price
- 2. Parity pricing
- 3. Competitive price
- 4. Discriminating price

List-II

- a. Landed cost of imports
- b. Liberalized economy
- c. Public enterprises
- d. Fixed by Government

Codes:

a b c d

- (A) 1 2 3 4
- (B) 2 3 4 1
- (C) 3 4 2 1
- (D) 4 2 1 3

Answer: (B)

53. Increasing returns to scale can be explained in terms of:

- (a) External and internal economies
- (b) External and internal diseconomies
- (c) External economics and internal diseconomies
- (d) All of these

Ans. (a) External and internal economies

Explanation: In simple terms, if factors of production are doubled output will also be doubled. In this case internal and external economies are exactly equal to internal and external diseconomies.

54. An isoquant is _____ to an iso cost line at equilibrium point:

- (a) Convex
- (b) Concave
- (c) Tangent
- (d) Perpendicular

Ans. (c) Tangent

Explanation: An isoquant is a graph showing combinations of capital and labour that a firm can use to produce a given output. The slope of an isoquant at any point is the slope of a tangent line at that point. The slope is called the marginal rate of technical substitution (MRTS).

55. At the point of inflexion, the marginal product is:

- (a) Increasing
- (b) Decreasing
- (c) Maximum
- (d) Negative

Ans. (c) Maximum

Explanation: At the point of inflexion, the marginal product is maximum. Up to the Point of Inflexion TP has been increasing at increasing rate resulting in increasing MP.

56. Diminishing marginal returns implies:

- (a) Decreasing average variable costs
- (b) Decreasing marginal costs
- (c) Increasing marginal costs
- (d) Decreasing average fixed costs

Ans. (c) Increasing marginal costs

Explanation: The law of diminishing returns implies that marginal cost will rise as output increases. Eventually, rising marginal cost will lead to a rise in average total cost.

57. If the marginal product of labour is below the average product of labour. It must be true that:

- (a) Marginal product of labour is negative
- (b) Marginal product of labour is zero
- (c) Average product of labour is falling
- (d) Average product of labour is negative

Ans. (c) Average product of labour is falling

Explanation: Average product of labour is calculated by taking the total output and dividing it by the total quantity of labour and the marginal product of labour is the additional output produced when one more labour is hired. So, if marginal product is less than the average product, both MP and AP falls.

58. Law of variable proportion is valid when:

- (a) Only one input is fixed and all other inputs are kept variable
- (b) All factors are kept constant
- (c) All inputs are varied in the same proportion
- (d) None of these

Ans. (a) Only one input is fixed and all other inputs are kept variable

Explanation: The Law also states that if we keep all other factors constant and increase the units of a **variable** factor, then the marginal physical product initially increases, then decreases, and finally becomes negative. Therefore, it has three stages: I – MPP increasing. II – MPP decreasing but remaining positive.

59. If LAC curve falls as output expands, this is due to _____:

- (a) Law of diminishing returns
- (b) Economics of scale
- (c) Law of variable proportion
- (d) Diseconomies of scale

Answer: (b) Economics of scale

Explanation: Long run average cost is the cost per unit of output reasonable when all factors of production are variable. Long Run Average cost is of 'U' shaped because of returns to scale. In the establishment, firms enjoy lots of economies to scale so its cost curve is downward sloping. Increasing income to scale applies when firms enjoy economies to scale. In the beginning, the factors of production are not exhausted.

60. Perceived value is made up of

- a) Buyer's image of the product performance
- b) The channel deliverables
- c) Customer support
- d) None of the above

Answer: d) None of the above

Explanation: In marketing terminology, perceived value is the customers' evaluation of the merits of a product or service, and its ability to meet their needs and expectations, especially in comparison with its peers.

61. Value pricing focuses on

- a) Low price
- b) High quality
- c) Both a and b
- d) None of the above

Answer: c) Both a and b

Explanation: Value pricing is the practice of setting prices based on estimates of how valuable a good is to the customer. This ignores the prices of competitors and your costs and focuses on what the customer is willing to pay based on their needs, preferences and perceptions.

62. Everyday low pricing takes place at

- a) Retail level
- b) Wholesale level
- c) Both a and b
- d) None of the above

Answer: a) Retail level

Explanation: Everyday low price (EDLP) is a pricing strategy promising consumer a low price without the need to wait for sale price events or comparison shopping. EDLP saves retail stores the effort and expense needed to mark down prices in the store during sale events, as well as to market these events.

63. In going rate pricing an organization bases its price based on

- a) Consumers preferences
- b) Competitors price
- c) Self decision
- d) None of the above

Answer: b) Competitors price

Explanation: The **Going-Rate Pricing** is a method adopted by the firms wherein the product is priced as per the rates prevailing in the market especially on par with the competitors. Basically, the company sets a price of its products and services in line with the competitor's prices, and may sometimes charge more or less depending on the value, product offers.

64. English auctions is about

- a) Ascending bids
- b) Descending bids
- c) Sealed bids
- d) None of the above

Answer: a) Ascending bids

Explanation: An English auction is an open-outcry ascending dynamic auction. The auctioneer opens the auction by announcing a suggested opening bid, a starting price or reserve for the item on sale. Then, the auctioneer accepts increasingly higher bids from the floor, consisting of buyers with an interest in the item.

65. Dutch auctions is about

- a) Ascending bids
- b) Descending bids
- c) Sealed bids
- d) None of the above

Answer: b) Descending bids

Explanation: A Dutch auction is a public offering auction structure in which the price of the offering is set after taking in all bids to determine the highest price at which the total offering can be sold. In this type of auction, investors place a bid for the amount they are willing to buy in terms of quantity and price.

66. In Sealed bid auctions suppliers can submit only

- a) One bid
- b) Many bids
- c) Depends
- d) None of the above

Answer: a) One bid

Explanation: You are only allowed to submit the pre-bid price once.

67. Sealed bid auction is about a

- a) One stage bidding process
- b) Two stage bidding process
- c) Depends
- d) None of the above

Answer: b) Two stage bidding process

Explanation: A sealed-bid auction is a type of auction process in which all bidders simultaneously submit sealed bids to the auctioneer so that no bidder knows how much the other auction participants have bid. The highest bidder is usually declared the winner of the bidding process.

68. The slope of a demand curve depends on

- A) the units used to measure quantity but not the units used to measure price.
- B) the units used to measure price and the units used to measure quantity.
- C) the units used to measure price but not the units used to measure quantity.
- D) neither the units used to measure price nor the units used to measure quantity.

Ans. B

Explanation: The demand curve is drawn with the price on the vertical axis and quantity demanded (either by an individual or by an entire market) on the horizontal axis. Mathematically, the slope of a curve is represented by rise over run or the change in the variable on the vertical axis divided by the change in the variable on the horizontal axis. Therefore, the slope of the demand curve represents the change in price divided by change in quantity,

69. The price elasticity of demand depends on

- A) the units used to measure price but not the units used to measure quantity.
- B) the units used to measure price and the units used to measure quantity.
- C) the units used to measure quantity but not the units used to measure price.
- D) neither the units used to measure price nor the units used to measure quantity.

Ans. D

70. The price elasticity of demand measures

- A) the slope of a budget curve.
- B) how often the price of a good changes.
- C) the responsiveness of the quantity demanded to changes in price.
- D) how sensitive the quantity demanded is to changes in demand.

Ans. C

Explanation: The price elasticity of demand (PED) is a measure that captures the responsiveness of a good's quantity demanded to a change in its price. More specifically, it is the percentage change in quantity demanded in response to a one percent change in price when all other determinants of demand are held constant.

71. Goods which are paradoxical to the law of demand are

- A) Giffen goods
- B) substitute goods
- C) Complementary goods
- D) none of the above

Ans. A

Explanation: In economics and consumer theory, a Giffen good is a product that people consume more of as the price rises and vice versa—violating the basic law of demand in micro economics.

72. The price elasticity of demand equals

- A) the percentage change in the quantity demanded divided by the percentage change in the price.
- B) the change in the quantity demanded divided by the change in price.
- C) the percentage change in the price divided by the percentage change in the quantity demanded.
- D) the change in the price divided by the change in quantity demanded.

Ans. A

Explanation: It is the percentage change in quantity demanded in response to a one percent change in price when all other determinants of demand are held constant.

73. A 20 percent increase in the quantity of pizza demanded results from a 10 percent decline in its price. The price elasticity of demand for pizza is

- A) 2.0.
- B) 10.0.
- C) 0.5.
- D) 20.0.

Ans. A

Explanation: Price elasticity of demand is an economic measure of the change in the quantity demanded or purchased of a product in relation to its price change. Expressed mathematically, it is: Price Elasticity of Demand = % Change in Quantity Demanded / % Change in Price.

74. Demand is perfectly inelastic when

- A) the good in question has perfect substitutes.
- B) shifts in the supply curve results in no change in price.
- C) shifts of the supply curve results in no change in quantity demanded.
- D) shifts of the supply curve results in no change in the total revenue from sales.

Ans. C

Explanation: When demand is perfectly inelastic, quantity demanded for a good does not change in response to a change in price. **Infinite elasticity** or **perfect elasticity** refers to the extreme case in which either the quantity demanded (Qd) or supplied (Qs) changes by an infinite amount in response to any change in price at all. In both cases, the supply curve and the demand curve are horizontal,

75. Demand is inelastic if

- A) a large change in quantity demanded results in a small change in price.
- B) the price elasticity of demand is greater than 1.
- C) the quantity demanded is very responsive to changes in price.
- D) the price elasticity of demand is less than 1.

Ans. D

Explanation: Inelastic demand is when the buyer's demand does not change as much as the price changes. When price increases by 20% and demand decreases by only 1%, demand is said to be inelastic.

76. On a straight-line downward-sloping demand curve, the maximum elasticity of demand occurs

- A) where it intersects the supply curve.
- B) at its vertical intercept.
- C) at its horizontal intercept.
- D) at its midpoint.

Ans. B

Explanation: On a straight-line downward-sloping demand curve, the maximum elasticity of demand occurs at its vertical intercept.

77. The elasticity of demand for luxury goods is

- A) infinite
- B) more than one
- C) less than one
- D) equal to one

Ans. A

Explanation: Elasticity of demand for luxury goods is infinite because a small change in price a bigger percentage increase in demand.

78. The more substitutes available for a product,

- A) the larger is its income elasticity of demand.
- B) the smaller is its income elasticity of demand.
- C) the smaller is its price elasticity of demand.
- D) the larger is its the price elasticity of demand.

Ans. D

Explanation: The more substitutes available for a product, the greater the price elasticity of demand. The more time that passes, the more inelastic the demand for a product becomes. The demand curve for a luxury is less elastic than the demand curve for a necessity.

79. If goods are complements, definitely their

- A) income elasticities are negative.
- B) income elasticities are positive.
- C) cross elasticities are positive.
- D) cross elasticities are negative.

Ans. D

Explanation: Cross-price elasticity of demand for two goods is negative ($XED < 0$) when the demand for one good and the price of the other good change in opposite directions: when the price of one good increases, the demand for the other falls. This occurs when the two goods are complements

80. The cross elasticity of demand between Coca-Cola and Pepsi-Cola is

- A) positive, that is, Coke and Pepsi are complements.
- B) negative, that is, Coke and Pepsi are complements.
- C) positive, that is, Coke and Pepsi are substitutes.
- D) negative, that is, Coke and Pepsi are substitutes.

Ans. C

Explanation: Cross-price elasticity of demand for two goods is positive ($XED > 0$) when the demand for one good and the price of the other good change in the same direction: when the price of one increases, the demand for the other also increases. This occurs when the two goods are substitutes

81. Match the following

List 1

- A. inferior goods
- B. complementary goods
- C. substitute goods
- D. normal goods

List 2

- 1. tea coffee
- 2. income effect is positive
- 3. car and petrol
- 4. income effect is negative

Codes:

| | A | B | C | D |
|----|---|---|---|---|
| A) | 1 | 2 | 3 | 4 |
| B) | 2 | 3 | 1 | 4 |
| C) | 4 | 3 | 1 | 2 |
| D) | 3 | 2 | 4 | 1 |

Ans. C

82. A rectangular hyperbola shaped demand curve on all its points has: ...

- a. Slope and price elasticity equal
- b. Equal slopes of the price demand curve
- c. Price elasticity is unity
- d. varying price elasticity

Ans. C.

Explanation: Rectangular hyperbola is a curve under which all rectangular areas are equal. When the elasticity of demand is equal to unity ($e_d = 1$) at all points of demand curve, then the demand curve is rectangular hyperbola.

83. Match the following

- | | |
|---------------------------------------|--------------------------|
| (A) Cross elasticity less than zero | (i) Competitive goods |
| (B) Income elasticity less than zero | (ii) Inferior goods |
| (C) Cross elasticity less than unity | (iii) Superior goods |
| (D) Income elasticity less than unity | (iv) Complementary goods |

Codes:

| | A | B | C | D |
|----|-------|------|------|-------|
| A) | (iii) | (ii) | (iv) | (i) |
| B) | (iii) | (ii) | (i) | (iv) |
| C) | (iv) | (ii) | (i) | (iii) |
| D) | (i) | (ii) | (iv) | (iii) |

Ans. D

84. Demand is income elastic if

- A) an increase in income will not affect the quantity demanded.
- B) a small percentage increase in income will result in a large percentage increase in quantity demanded.
- C) the good in question has close substitutes.
- D) a large percentage increase in income will result in a small percentage increase in quantity demanded.

Ans. B

Explanation: Income elasticity of demand measures the responsiveness of demand for a particular good to changes in consumer income. The higher the income elasticity of demand in absolute terms for a particular good, the bigger consumers' response in their purchasing habits—if their real income changes.

85. Relation between AR, MR and elasticity of demand can be established by the formula

- A) $MR = AR (1 - 1/e)$
- B) $AR = MR (e - 1/e)$
- C) $MR = AR (1/e - 1)$
- D) $AR = MR/e$

Ans. A

Explanation: From the formula $MR = AR (e - 1/e)$ we can know what would be the marginal revenue, if elasticity and AR are given to us. When the elasticity is equal to one, it follows from the above formula that marginal revenue will be equal to zero.

86. Marginal revenue will be zero, if the elasticity of demand is

- A) zero
- B) greater than one
- C) equal to one
- D) less than one

Ans. C

Explanation: If the price elasticity of a firm's average revenue curve at a given level of output is equal to one marginal revenue equals zero.

87. When AR is constant, MR is

- A) equal to AR
- B) less than AR
- C) more than AR
- D) equal to zero

Ans. A

Explanation: Under perfect competition, average revenue curve is a straight horizontal line and is equal to MR.

88. 'Kinked Demand curve approach' is concerned with

- A. price discrimination
- B. price flexibility
- C. price rigidity
- D. dual pricing

Answer. C

Explanation: The Kinked-Demand curve theory is an economic theory regarding oligopoly and monopolistic competition. Kinked demand was an initial attempt to explain sticky/rigidity of prices.

89. All the following curves are U-shaped except

- A. AVC curve
- B. AFC curve
- C. AC curve
- D. MC curve

Answer. B

Explanation: The average fixed costs AFC curve is downward sloping because fixed costs are distributed over a larger volume when the quantity produced increases. AFC is equal to the vertical difference between ATC and AVC. Variable returns to scale explains why the other cost curves are U-shaped.

90. For a competitive firm, long period normal price will

- A. Equal AC and MC of production
- B. Equal MC of production only
- C. Equal AC of production only
- D. Equal TC of production only

Answer. A

Explanation: In the long run, every cost is variable cost. In this period, all costs ever incurred by the firm must be recovered. Price, in the long run, or normal price under perfect competition, therefore, must be equal to the minimum long-run average cost. A firm under perfect competition is in long-run equilibrium at the output where price = MC = minimum LAC.

91. The price which a consumer would be willing to pay for a commodity equals to his

- A. Total utility
- B. Marginal utility
- C. Average utility
- D. Does not have any relation to anyone of these

Answer. B

Explanation: In a state of equilibrium, the price that a consumer is ready to pay for a commodity is the marginal utility of the commodity. Because, in a state of equilibrium: $P_x = MU_x$ (in terms of money).

92. Price discrimination policy helps in increasing profit in case of

- A. Perfect competition
- B. Monopolistic Competition
- C. Monopoly
- D. Oligopoly

Answer. C

Explanation: Price Discrimination involves charging a different price to different groups of consumers for the same good. Price discrimination can provide benefits to consumers, such as potentially lower prices, rewards for choosing less popular services and helps the firm stay profitable and in business. The advantages of price discrimination will be appreciated more by some groups of consumers. It is the activity of monopoly market.

93. In perfect competition in the long run there will be no

- A. Normal profit
- B. Supernormal profit
- C. Production
- D. Costs

Answer. B

Explanation: In the long run, a firm is free to adjust all of its inputs. New firms can enter any market; existing firms can leave their markets. We shall see in this section that the model of perfect competition predicts that, at a long-run equilibrium, production takes place at the lowest possible cost per unit and that all economic profits and losses are eliminated. So, firm can earn only normal profit there is no scope of supernormal profit.

94. Cartels is a form of

- A. Collusive oligopoly
- B. Monopoly
- C. Non- Collusive oligopoly
- D. None of these

Answer. A

Explanation: Cartels are usually found in a market form called oligopoly. Cartel is one such collusive engagement. It is an informal association among the firms. Under cartel, the firms agree sometimes about the total output to be produced by each firm, the price charged by the firms or sharing of markets.

95. What is the 'fundamental promise of economics'

- A. individuals are capable of establishing goals and acting in a manner consistent and achievement of those goals.
- B. Natural resources will always be scares.
- C. Individuals choose the alternative for which they believed the net gains to be the greatest.
- D. No matter what the circumstance individual choice always involves a trade off.

Answer. C

Explanation: Economics is based on how individuals make a selection be it is a consumer or a producer to optimize their gain either as utility or as profit on the commodity.

96. Imperfect competition was introduced by

- A. Marshall
- B. Chamberlin
- C. Keyans
- D. None

Answer. B

Explanation: Roy Harrod was the first economist to develop the theory of imperfect competition and, other authors, such as Edward Chamberlin and Joan Robinson renewed its interest and made major contributions. Nevertheless, it is important to point out that Cournot, in his “Researches into the Mathematical Principles of the Theory of Wealth”, 1838, was the first to model this kind of markets.

97. The term group equilibrium is related to

- A. Monopolistic competition
- B. Oligopoly
- C. Duopoly
- D. Perfect competition

Answer. A

Explanation: In monopolistic competition, it is necessary for an organization to analyze price and output of other organizations existing in the industry. The concept of group equilibrium was introduced by Chamberlin. Group equilibrium represents the price and output of organizations having close substitute. However due to product differentiation, it is difficult to form market demand schedules and supply.

98. Demand curve is related to

- A. MU curve
- B. Marginal revenue
- C. Both (A) and (B)
- D. None of these

Answer. C

Explanation: Law of diminishing marginal utility is the root cause of law of demand. Consumer will be at equilibrium when MU of commodity X is equal to price of commodity X. And after the equilibrium he will purchase additional unit only in one condition when he has to pay less price for additional one. So more will be purchased at less price. Which is basically law of demand. Law of demand can be derive from the graph of law of diminish marginal utility also

UNIT 4

Business Finance

1. Which method does not consider the time value of money?

- A. Net Present Value
- B. Internal Rate of Return
- C. Average Rate of Return
- D. Profitability

Answer: C

Explanation: The **Average Rate of Return or ARR**, measures the profitability of the investments on the basis of the information taken from the financial statements rather than the cash flows. It is also called as **Accounting Rate of Return**. The formula for calculating the average rate of return is:

Average Rate of Return = Average Income / Average Investment over the life of the project.

2. Which formula is used measure the degree of Operating leverage?

- A. EBIT/sales
- B. C/EBIT
- C. EBIT/EBT
- D. EBIT/C

Answer: B

Explanation: $DOL = \frac{\text{Total Contribution}}{EBIT}$

3. Which one is more appropriate for cost of retained earnings?

- A. Weighted Average Cost of Capital
- B. Opportunity cost to the firm
- C. Expected rate of return by the investor
- D. None of the above

Answer: B

Explanation: The cost of those retained earnings equals the return shareholders should expect on their investment. It is called an opportunity cost because the shareholders sacrifice an opportunity to invest that money for a return elsewhere and instead allow the firm to build capital.

4. Match the following with the most suitable options.

List-I

- a. Modigliani-miller approach
- b. Net Operating income approach
- c. Short term money market instrument
- d. Factoring

List-II

- 1. Commercial paper
- 2. Working capital
- 3. Capital structure
- 4. Arbitrage

Codes:

| | a | b | c | d |
|----|---|---|---|---|
| A. | 4 | 3 | 1 | 2 |
| B. | 3 | 4 | 1 | 2 |
| C. | 3 | 2 | 1 | 4 |
| D. | 4 | 2 | 3 | 1 |

Answer: A

Explanation: Modigliani-miller approach is associated with the concept of arbitrage, Net operating income approach is the theory of capital structure, Commercial paper is a short term instrument of money market and factoring is the source of working capital.

5. ABC Ltd. has declared 40% dividend. Which one of the following does it mean?

- A. The company has declared 40% of net profit as dividend.
- B. The company has declared 40% of profits after tax as dividend.
- C. The company will provide dividend 40% on issued capital.
- D. The company will provide dividend 40% on paid-up capital.

Answer: D

Explanation: Dividend is paid on the face value of share and not the market value of shares and it is paid on the paid up share capital.

6. Which of the following statements are correct?

- I. Inventory includes raw materials, finished goods and work – in – progress.
- II. Inventory is a part of the working capital.
- III. Inventory includes goods likely to be purchased.

Codes:

- A. I, II and III
- B. II and III
- C. I and III
- D. I and II

Answer: D

Explanation: Inventory includes stock of raw materials, work-in-progress and finished goods. Inventory is the main component of working capital. Inventory includes the goods which is already purchased but it does not include the goods to be purchase in future.

7. The presence of fixed costs in the total cost structure of a firm results into

- A. Financial leverage
- B. Operating leverage
- C. Super leverage
- D. None of the above

Answer: B

Explanation: **Operating leverage** is an ability of financial management to magnify the effect of certain change in sales over the percentage change in sales over percentage change in EBIT by using **fixed operating cost** in the cost structure.

8. "The cost of capital declines when the degree of financial leverage increases." Who advocated it?

- A. Net operating income approach
- B. Net income approach
- C. Modigliani-Miller approach
- D. Traditional approach

Answer: B

Explanation: This theory was proposed by **Durand, D.** As per this approach capital structure decision of a firm has direct relationship with the cost of capital and the value of the firm. A firm can increase its value by lowering the cost of capital and a firm can reduce its cost of capital by using more debt capital in the capital structure. This theory is based on the following assumption-there is no tax, cost of debt is less than equity capitalization rate and use of debt does not change the risk perception of investors.

9. A view that the dividend policy of a firm has a bearing on share valuation advocated by James E. Walter is based on which one of the following assumptions?

- A. Retained earnings is only source of financing.
- B. Cost of capital does not remain constant.
- C. Return on investment fluctuates.
- D. All the above.

Answer: A

Explanation:

Assumptions of Walter model:

- All the financing is done through the retained earnings; no external financing is used.
- The rate of return (r) and the cost of capital (K) remain constant irrespective of any changes in the investments.
- All the earnings are either retained or distributed completely among the shareholders.
- The earnings per share (EPS) and Dividend per share (DPS) remain constant.
- The firm has a perpetual life. (4.5.2.3)

10. Which one is not an important objective of Financial Management?

- A. Profit Maximisation
- B. Wealth Maximisation
- C. Value Maximisation
- D. Maximisation of social benefits

Answer: D

Explanation: Main objectives of financial management are

1. Profit maximisation
2. Shareholders wealth maximisation or maximisation of the value of the firm

11. Which one refers to cash inflow under payback period method?

- A. Cash flow before depreciation and taxes
- B. Cash flow after depreciation and taxes
- C. Cash flow after depreciation but before taxes
- D. Cash flow before depreciation and after taxes

Answer: B

Explanation: Payback period is the time in which the initial outlay of an investment is expected to be recovered through the cash inflows after depreciation and taxes (CFAT) generated by the investment. It is one of the simplest investment appraisal techniques.

12. The concept of present value is based on the :

- A. Principle of compounding
- B. Principle of discounting
- C. (A) and (B)
- D. None of the above

Answer: (B)

Explanation: Present value is the current value of the amount to be received from investment in future. It is obtained by discounting the future amount by applying cost of capital.

13. Cost of capital from all the sources of funds is called

- A. Specific cost
- B. Composite cost
- C. Implicit cost
- D. Simple Average cost

Answer: B

Explanation: The cost of each sources of capital such as equity, debt, retained earnings and loans is termed as specific cost of capital. It is beneficial to determine the each and every specific source of capital. The composite or combined cost of capital is the amalgamation of all sources of capital. It is also called as overall cost of capital.

14. The weighted average cost of capital for a firm is the:

- A. Discount rate which the firm should apply to all of the projects it undertakes.
- B. Rate of return a firm must earn on its existing assets to maintain the current value of its stock.
- C. Coupon rate the firm should expect to pay on its next bond issue.
- D. Maximum rate which the firm should require on any projects it undertakes.

Answer: B

Explanation: Cost of capital may be defined as the 'minimum rate of return that a firm must earn on its investment for the market value of the firm to remain unchanged'. So, it is nothing but the cost that has to be incurred by an organisation for collecting funds from different sources.

15. What does a high pay-out ratio indicate?

- A. A High Earning Per Share (EPS)
- B. The management is not ploughing back enough profit.
- C. The management is ploughing back profit.
- D. The company is earning high profit.

Answers: B

Explanation: Dividend Pay- Out Ratio= Dividend /Net Earnings

This ratio indicates the amount of dividend paid to the shareholders out of the earnings generated by the company. Remaining portion of dividend is known as retained earning which is ploughing back in the business concern.

16. Which one of the following will not affect the working capital?

- A. Realization of cash from debtors.
- B. Sale of plant and machinery in cash.
- C. Issue of equity shares.
- D. Redemption of debentures.

Answers: A

Explanation: Realizations of cash from debtors increase the value of current assets (cash in hand) in one hand and decrease the current assets (Debtors) in other hand. So, net effect will be nil i.e. there will be no impact on working capital.

17. The degree of financial leverage reflects the responsiveness of

- A. Operating income to changes in total revenue
- B. EPS to changes in EBIT
- C. EPS to changes in total revenue
- D. None of the above

Answers: B

Explanation: Financial leverage is an ability of financial management to magnify the effect of certain change in EBIT over the percentage change in sales over percentage change in EPS by using fixed cost bearing capital in the capital structure. This leverage is measured with the help of **Degree of Financial leverage (DFL)**.

$$DFL = \frac{\% \text{ Change in EPS}}{\% \text{ Change in EBIT}}$$

18. The overall capitalization rate and the cost of debt remain constant for all degrees of financial leverage is advocated by

- A. Traditional Approach
- B. Net Income Approach
- C. Net Operating Income Approach
- D. M-M-Approach

Answers: C

Explanation: This theory was also proposed by **Durand, D.** As per this approach capital structure decision of a firm has no relationship with the cost of capital and the value of the firm i.e. the value of the firm remains unaffected by its capital structure. According to this theory use of more debt capital in the capital structure does not result in reduction of overall cost of capital as use of more debt increases the riskiness of the firm and equity shareholders demand more return for facing more risk. So, decreases in cost of capital due use of debt capital is off set by the increase cost of equity and the firm value remains unaltered.

19. Which of the following is not included in the assumptions on which Myron Gordon proposed a model on stock valuation?

- A. Retained earnings, the only source of financing
- B. Finite life of the firm
- C. Taxes do not exist
- D. Constant rate of return on firm's investment

Answers: B

Explanation:

Assumptions of Gordon's model:

- The firm is an all-equity firm; only the retained earnings are used to finance the investments, no external source of financing is used.
- The rate of return (r) and cost of capital (K) are constant.
- The life of a firm is indefinite.
- Retention ratio once decided remains constant.
- Growth rate is constant ($g = br$)
- Cost of Capital is greater than br

20. Match the following:

List – I

- (i) Factoring services
- (ii) Economic Order Quantity
- (iii) Commercial paper

List – II

- (a) Cash Management
- (b) Receivable Management
- (c) Inventory Management
- (d) Working Capital Financing

Codes:

(i) (ii) (iii)

- A. (a) (c) (b)
- B. (c) (b) (a)
- C. (b) (c) (d)
- D. (b) (a) (c)

Answers: C

Explanation: Factoring services is the responsibility of management of debtors on behalf of the client i.e. relates with the receivable's management. Economic Ordering Quantity (EOQ) is the optimum order quantity to minimise the cost of purchase of inventory i.e. relates with the Inventory Management. Commercial paper is the short-term money market instrument i.e. relates with the working capital management.

21. Which one of the following is the most popular method for estimating the cost of equity?

- A. Capital asset pricing model
- B. Dividend yield method
- C. Gordon's dividend discount model
- D. Earnings yield method

Answer: A

Explanation: CAPM model is considered the most popular method of calculating cost of equity as it considers the systematic risk.

22. The participants who take advantage of different exchange rates in different markets are

- A. Speculators
- B. Arbitrageurs
- C. Hedgers
- D. Investors

Answer: B

Explanation: Arbitrage is the process of simultaneously buying and selling a financial instrument on different markets, in order to make a profit from an imbalance in price.

23. Match the statements in List-I with dividend models in List-II as follows:

List – I

I Dividend Capitalisation Approach.

Model

II Dividend Policy has a bearing on the share valuation.

III Stock Market places more weight on dividends than on retain earnings.

IV Dividend pay-out is irrelevant to the value of the firm.

Miller Model

Codes:

| | I | II | III | IV |
|----|---|----|-----|----|
| A. | 2 | 3 | 1 | 4 |
| B. | 1 | 2 | 4 | 3 |
| C. | 4 | 1 | 3 | 2 |
| D. | 3 | 4 | 2 | 1 |

List – II

1. Traditional

2. Gordon Model

3. Walter Model

4. Modigliani and

Answer: A

Explanation: Walter model considers that declaration of dividend is relevant to value of the firm and Modigliani and Miller Model considers that declaration of dividend is irrelevant to value of the firm; Traditional model considers that Stock Market places more weight on dividends than on retain earnings and Gordon's model considers as Dividend Capitalisation Approach model.

24. Venture capital financing at starting stage is generally not done through

- A. Debt instruments
- B. Deep discount bonds
- C. Equity shares
- D. Conditional loans

Answer: B

25. Match the statements in List-I with the types of lease in the List-II as follows:

List – I

I Lessor transfer all risks and rewards of an asset to the lessee.

II Lessor transfers the assets to the lessee but bears the cost of maintenance

III The owner of the asset sells it to the lessor who in turn leases it back to the owner (now lessee)

IV Lessor owns/ acquires the assets that are leased to a given lessee.

Codes:

List – II

1. Indirect lease

2. Operating lease

3. Finance lease

4. Direct lease

| | I | II | III | IV |
|----|---|----|-----|----|
| A. | 2 | 3 | 4 | 1 |
| B. | 1 | 4 | 2 | 3 |
| C. | 3 | 2 | 1 | 4 |
| D. | 4 | 1 | 3 | 2 |

Answer: C

Explanation: Finance lease refers to the lease where the finance company owns the asset legally during the tenure of the lease but all the risk and reward associated with the asset are transferred to the lessee by the lessor and at the end of the lease term lessee also gets the ownership of the asset.

Operating lease is a contract wherein the owner, called the Lessor, permits the user, called the Lessee, to use of an asset for a particular period which is shorter than the economic life of the asset without any transfer of ownership rights. The Lessor gives the right to the Lessee in return for regular payments for an agreed period of time.

Direct sale refers to the situation where the lessor directly leases the property to the lessee. The lessor either owns the property already or buys it from the manufacturer.

In Indirect lease the owner of the asset sells it to the lessor who in turn leases it back to the owner (now lessee)

26. Out of the following alternative methods of project evaluation and selection used in capital budgeting, which one of the combinations in the code corresponds to discounted cash flow methods?

(i) Internal Rate of Return

(ii) Pay Back Period

(iii) Profitability Index

(iv) Net Present Value

Codes:

A. (i), (ii), (iii)

B. (i), (iii), (iv)

C. (ii), (iii), (iv)

D. (i), (ii), (iii), (iv)

Answer: B

Explanation: Excluding the Pay Back Period method, all other methods given in the question considers future cash flows after discounting them at cost of capital rate.

27. When the expected level of EBIT exceeds the indifferent point for two alternative financial plans, (Equity financing and Debt-financing), then

- A. The use of debt financing would be advantageous to increase EPS.
- B. The use of equity financing would be advantageous to maximize EPS.
- C. The use of debt-financing would reduce EPS.
- D. The use of equity financing would keep the EPS constant.

Answer: A

Explanation: The indifferent point can be defined as "the level of EBIT beyond which the benefits of financial leverage begin to operate with respect to Earnings Per share (EPS)". If the EBIT exceeds the indifference point level of EBIT, the use of fixed-cost source of funds would be beneficial from the EPS viewpoint. In this case, financial leverage would be favourable. In the reverse scenario, if the expected level of EBIT is less than the indifference point, the advantage of EPS would be available from the use of equity capital and not debt capital.

28. Which one of the following is not the assumption of the Modigliani-Miller Irrelevance Theory of Dividend Policy?

- A. No personal or corporate income taxes.
- B. Dividend policy has its effect on firm's cost of equity.
- C. Capital investment policy is independent of its dividend policy.
- D. Stock floatation or transaction cost does not exist.

Answer: B

Explanation:

Assumption

- There are no taxes.
- Transaction cost for buying and selling securities, as well as the bankruptcy cost, is nil.
- There is a symmetry of information. This means that an investor will have access to the same information that a corporation would and investors will thus behave rationally.
- The cost of borrowing is the same for investors and companies.
- There is no floatation cost, such as an underwriting commission, payment to merchant bankers, advertisement expenses, etc.
- There is no corporate dividend tax.

29. Match the items of List-I with the items of List-II.

List – I

- (i) Financial Breakeven- point
- (ii) Cost-Volume-Profit Analysis

(iii) Internal Rate of Return

(iv) Net Operating Income Approach
satisfy all fixed financial charges.

Codes:

(a) (b) (c) (d)

A. (iii) (iv) (ii) (i)

B. (i) (ii) (iii) (iv)

C. (iv) (iii) (i) (ii)

D. (i) (ii) (iv) (iii)

List – II

(a) Rate of discount at which NPV is zero.

(b) Cost of capital remains the same for
different degrees of financial leverage.

(c) Analysis to study relationship among fixed
costs, variable costs, sales volume and profits.

(d) The minimum level of EBIT needed to

Answer: A

Explanation: As per Net Operating Income Approach capital structure decision of a firm has no relationship with the cost of capital and the value of the firm i.e. the value of the firm remains unaffected by its capital structure. According to this theory use of more debt capital in the capital structure does not result in reduction of overall cost of capital as use of more debt increases the riskiness of the firm and equity shareholders demand more return for facing more risk. So, decreases in cost of capital due use of debt capital is off set by the increase cost of equity and the firm value remains unaltered.

Cost Volume Profit (CVP) analysis shows the relationship among the Cost, Volume and Profit. IRR is the rate at which the net present value of the investment is zero. The discounted cash inflow is equal to the discounted cash outflow. Financial break-even point is the level of earnings before interest and taxes that will result in zero net income or zero earnings per share. It equals the company's interest expense plus dividends paid to preferred stock-holders and associated taxes.

30. Assertion (A): The focus of working capital management revolves around managing the operating cycle of the working capital.

Reason (R): It is because the concept is useful to ascertain the requirements of cash to meet the operating expenses of a going concern.

Codes:

A. Both (A) and (R) are true, but (R) is not the explanation of working capital management.

B. Both (A) and (R) are false.

C. (A) is true, but (R) is false.

D. (A) is false, but (R) is true.

Answer: A

31. Match the items of List-I with the items of List-II.

List – I

- (a) A theory of capital structure in which the weighted average cost of capital and the total value of the firm remains constant as financial leverage is changed.
- (b) The value of the geared company will always be greater than an ungeared company with similar business risk but only by the amount of debt associated tax savings of the geared company.
- (c) Capital structure that minimizes the firm's cost of capital and thereby maximizes the value of the firm.
- (d) Share price is independent of the degree of financial leverage.

List – II

- I. Capital Asset Pricing Model
- II. Traditional Approach
- III. Net Operating Income Approach
- IV. Modigliani-Miller Theory and Corporate Taxation

Codes:

(I) (II) (III) (IV)

- A. (c) (d) (b) (a)
- B. (d) (c) (a) (b)
- C. (a) (b) (c) (d)
- D. (b) (a) (d) (c)

Answer: B

Explanation: As per Net Operating Income Approach capital structure decision of a firm has no relationship with the cost of capital and the value of the firm i.e. the value of the firm remains unaffected by its capital structure. According to this theory use of more debt capital in the capital structure does not result in reduction of overall cost of capital as use of more debt increases the riskiness of the firm and equity shareholders demand more return for facing more risk. So, decreases in cost of capital due use of debt capital is off set by the increase cost of equity and the firm value remains unaltered.

According to Traditional approach there exist an optimal debt- equity mix where the overall cost of capital is the minimum and market value of the firm is the maximum. Before this point the marginal cost of debt is less than a cost of equity and after this point vice-versa. As per this theory use of debt in the capital structure up to specific point results in increase in the value of the firm, beyond which, any increase debt in the capital structure result in the reduction in the value of the firm.

32. When the internal rate of return of a project is more than the hurdle rate, the Net Present Value would be:

- A. Zero
- B. Positive
- C. Negative
- D. Uncertain

Answer: B

Explanation: Internal rate of Return is the rate at which the net present value of the investment is zero. So, IRR would be greater than the hurdle rate NPV will be positive.

33. **Statement I:** The presence of fixed operating costs in the operating cost structure of a firm regardless of the volume denotes the presence of financial leverage.

Statement II: Super leverage is the result of the multiplicative combination of the degree of operating leverage and financial leverage.

Codes:

- A. Both statements are true.
- B. Both statements are false.
- C. Statement I is true, but Statement II is false.
- D. Statement I is false, but Statement II is true.

Answer: D

Explanation: Financial leverage is an ability of financial management to magnify the effect of certain change in EBIT over the percentage change in sales over percentage change in EPS by using fixed cost bearing capital in the capital structure.

Super leverage/ combined leverage is the result of the multiplicative combination of the degree of operating leverage and financial leverage.

34. Which one of the following expressions has incorrect matching?

- A. A method of financing where each asset would be offset with a financing instrument of the same approximate maturity: **Hedging Approach.**
- B. A method of financing where all long-term funds are used to finance the current assets: **Aggressive Approach.**
- C. The amount of current assets required to meet a firm's long-term minimum needs: **Permanent working capital.**
- D. Trade credit and other payables that arise in the firm's day to day operations: **Spontaneous Financing.**

Answer: B

Explanation: The aggressive approach is a high-risk strategy of working capital financing wherein short-term finances are utilized not only to finance the temporary working capital but also a reasonable part of the permanent working capital.

35. **Statement – I** : Capital structure refers to composition of long-term funds.

Statement – II : These include equity share capital, preference share capital, debentures, all debts and all reserves.

- A. Both Statements I and II are correct.
- B. Statement I is correct but Statement II is incorrect.
- C. Statement I is incorrect but Statement II is correct.
- D. Both statements are incorrect.

Answer: B

Explanation: Capital structure implies the proportion of long term debt capital and equity capital.

36. Match the items of the following two lists and suggest the correct code :

List – I

List – II

- | | |
|------------------------------|--|
| a. Pay-back Rate of Return | i. Discounted Cash Flow Technique |
| b. Internal Rate of Return | ii. Compounded values of investments and returns |
| c. Benefit Cost Ratio | iii. Crude method for project evaluation |
| d. Net Terminal Value Method | iv. Varying sized projects evaluation |

Codes :

- | | a | b | c | d |
|----|-----|-----|-----|-----|
| A. | ii | iii | I | iv |
| B. | iii | i | iv | ii |
| C. | I | iv | ii | iii |
| D. | iv | ii | iii | i |

Answer: B

Explanation: Payback period is the time in which the initial outlay of an investment is expected to be recovered through the cash inflows generated by the investment. It is one of the simplest investment appraisal techniques. It is considering as the Crude method for project evaluation. Internal Rate of Return considers the discounted cash flow for evaluating the acceptability of the project. A **benefit–cost ratio** (BCR) is an indicator, used in cost benefits analysis, that attempts to summarize the overall value of money of a project or proposal. A BCR is the ratio of the benefits of a project or proposal, expressed in monetary terms, relative to its costs, also expressed in monetary terms. Terminal value (TV) is the value of a business or project beyond the forecast period when future cash flows can be estimated.

37. Sensitivity analysis is performed to

- A. Ascertain risk
- B. Determine profitability
- C. Build scenario for risk profile
- D. None of the above

Answer: C

Explanation: The technique used to determine how independent variable values will impact a particular dependent variable under a given set of assumptions is defined as **sensitive analysis**. It is used to build scenario for risk profile.

38. Dividend capitalisation model was developed by

- A. Ezra Solomon
- B. Myron J. Gordon
- C. James E. Walter
- D. Merton H. Miller and Franco Modigliani

Answer: B

Explanation: Gordon's model is also known as Gordon's Dividend Capitalization Model

39. A firm wants to know the Degree of Operating Leverage (DOL) with the following information: Current level of sales: 6000 units Break-even point sales : 4000 units What would be the DOL ?

- A. 1.50
- B. 0.67
- C. 3.00
- D. None of the above

Answer: C

40. Assertion (A): When two or more investment proposals are mutually exclusive, ranking the proposals on the basis of IRR, NPV and PI methods may give contradictory results.

Reason (R): The contradictory results in the ranking are due to differing dimensions relating to the scale of investments, cash flow patterns and project lives.

Indicate the correct answer:

Codes:

- A. Both (A) and (R) are true.
- B. (A) is true, but (R) is a necessary condition, but not a sufficient condition.
- C. Both (A) and (R) are false.
- D. Both (A) and (R) are true and (R) explains the reason sufficiently.

Answer: B

41. Which one of the following assumptions is not covered in the Walter's Model of the dividend policy?

- A. All financing is done through retained earnings.
- B. Firm's business risk does not change due to additional investments.
- C. The firm has an infinite life.
- D. The key variables like EPS and DPS keep on changing.

Answer: D

Explanation:

Assumptions of Walter model:

- All the financing is done through the retained earnings; no external financing is used.
- The rate of return (r) and the cost of capital (K) remain constant irrespective of any changes in the investments.
- All the earnings are either retained or distributed completely among the shareholders.
- The earnings per share (EPS) and Dividend per share (DPS) remain constant.
- The firm has a perpetual life.

42. Which one of the following emphasizes the qualitative aspects of working capital management?

- A. Gross working capital
- B. Quick working capital
- C. Net working capital
- D. None of the above

Answer: C

Explanation:

Net Working Capital = Current assets- Current liabilities i.e. Actual current assets

43. Read the following statements:

- (i) "The rate of return on investment increases with the shortage of working capital."
- (ii) "Net working capital is the excess of current assets over current liabilities."
- (iii) "Greater the size of the business unit, larger will be the requirement of working capital."
- (iv) "Working capital is also known as circulating capital."

Which one of the following consists of the correct statements?

- A. (i), (ii) and (iii)
- B. (ii), (iii) and (iv)
- C. (iii), (iv) and (i)
- D. (i), (ii) and (iv)

Answer: B

Explanation: NWC= CA-CL, With increase in size of the business requirement of the working capital increases and Circulating capital is the money required for day-to-day operations, such as operating expenses and inventory costs—generally current assets. Circulating capital is frequently referred to as working capital or alternatively, revolving capital.

44. Match the following:

- | | |
|----------------------------------|-----------------------------------|
| (a) Capital Budgeting | (i) Time adjusted rate of return |
| (b) Profitability Index | (ii) Irreversible |
| (c) Internal rate of return | (iii) Benefit/cost |
| (d) Capital investment decisions | (iv) Planning capital Expenditure |

Codes:

- | | (a) | (b) | (c) | (d) |
|----|------|-------|-------|-------|
| A. | (iv) | (iii) | (ii) | (i) |
| B. | (i) | (iv) | (ii) | (iii) |
| C. | (iv) | (iii) | (i) | (ii) |
| D. | (ii) | (i) | (iii) | (iv) |

Answer: C

Explanation: Capital investment decision is irreversible in nature i.e. once it is taken it cannot be changed very easily, Profitability index = PV of cash inflow/PV of cash outflow i.e. Benefit/Cost, Internal rate of return is time adjusted rate of return and capital budgeting is planning of capital expenditure.

45. According to which of the following, the firm's market value is not affected by capital structure?

- A. M-M Hypothesis
- B. Net Income approach
- C. The Traditional view
- D. None of the above

Answer: A

Explanation: M-M hypothesis is considering as irrelevance theory, as per this theory the firm's market value is not affected by capital structure.

46. Modigliani and Miller's dividend policy of a firm is

- A. Relevant
- B. Irrelevant
- C. Unrealistic
- D. None of the above

Answer: B

Explanation: According to M-M theory payment of dividend has no impact on the value of the firm and value of the firm is solely determined by the earning power and risk of its assets. According to the Modigliani and Miller value of the firm is determined by its ability to generate earnings from its investments and by its level of business and financial risk.

47. The dividend irrelevance theorem to share valuation was propounded by

- A. James E. Walter
- B. Myron Gordon
- C. Modigliani and Miller
- D. None of the above

Answer: C

Explanation: According to M-M theory payment of dividend has no impact on the value of the firm and value of the firm is solely determined by the earning power and risk of its assets. According to the Modigliani and Miller value of the firm is determined by its ability to generate earnings from its investments and by its level of business and financial risk.

48. Assertion (A): Management of working capital refers to the management of current assets and current liabilities.

Reason (R): But the major thrust of course, is on the management of current assets ; because current liabilities arise in the context of current assets.

Codes:

- A. Both (A) and (R) are incorrect.
- B. (A) is correct and (R) is incorrect.
- C. Both (A) and (R) are correct.
- D. (A) is incorrect, but (R) is correct.

Answer: B

Explanation: According to net concept working capital is the difference between current assets and current liabilities. So, working capital refers to the management of current assets and current liabilities. In managing working capital both the current assets and current liabilities should be managed properly.

49. Use of fixed interest securities in the capital structure is called

- A. Operating leverage
- B. financial leverage
- C. Overall leverage
- D. none of the above

Answer: B

Explanation: Financial leverage is an ability of financial management to magnify the effect of certain change in EBIT over the percentage change in sales over percentage change in EPS by using fixed cost bearing capital in the capital structure.

50. If NPV is positive, the IRR will be

- A. Positive
- B. $K = R$
- C. $K < R$
- D. None of the above

Answer: A

51. If a firm has low fixed costs relative to all other firms in the same industry, a large change in sales volume (either up or down) would have:

- A. A smaller change in EBIT for the firm versus the other firms.
- B. No effect in any way on the firm as volume does not effect fixed costs.
- C. A decreasing effect on the cyclical nature of the business.
- D. A larger change in EBIT for the firm versus the other firms.

Answer: A

Explanation: Operating leverage is an ability of financial management to magnify the effect of certain change in sales over the percentage change in sales over percentage change in EBIT by using fixed operating cost in the cost structure. If a firm has low fixed costs relative to all other firms in the same industry, a large change in sales volume (either up or down) would have a smaller change in EBIT for the firm versus the other firms because of lower value of DOL.

52. Dividend policy of a company mainly concerns with (i) dividend pay-out and/or (ii) stability of dividend.

- A. Only (i) is correct.
- B. Only (ii) is correct.
- C. Both (i) and (ii) are correct.
- D. Both (i) and (ii) are incorrect.

Answer: C

Explanation: The main thing to be considers at the time of designing dividend policy are dividend pay-out ratio as well as stability of the dividend.

53. Working capital represents the portion of current assets financed through long term funds. This indicates (1) net working capital and/or (2) gross working capital.

- A. (1) is correct
- B. (2) is correct
- C Both (1) and (2) are correct
- D. neither of the two is correct

Answer: B

Explanation: As per net working capital concept amount of long term sources of fund which is invested in current assets is called working capital. In this situation both the current assets i.e. gross working capital and the current liabilities i.e. net working capital is considered.

54. Discounted cash flow criteria for investment appraisal does not include

- A. Net present value
- B. Benefit-cost ratio
- C. Accounting rate of return
- D. Internal rate of return

Answer: C

Explanation: Only in case of Accounting Rate of Return cash flow criterion is violated and profit criterion is used to consider the project acceptability. Benefit-cost ratio is also known as Profitability index method.

55. Under the factoring arrangement, the factor

- A. Produces and distributes the goods or services
- B. Makes the payment on behalf of the client
- C. Collects the client's debt or account receivables
- D. Transfer the goods from one place to another

Answer: C

Explanation: Factoring is a source of finance for small businesses. Factoring is a financial transaction between a business owner and a third party that provides instant cash to the former in exchange for the account receivables of the business. In other words, a cash-strapped business, unable to get desperately needed funds, sells off its invoices, that are called account receivables, to a third party and in exchange, gets the much-needed cash.

56. Which one of the following is not used to estimate cost of equity capital?

- A. External yield criterion
- B. Dividend plus growth rate
- C. Equity capitalisation approach
- D. Capital asset pricing model

Answer: A

Explanation: Except External yield criterion all three model is used to estimate the cost of equity.

57. A higher financial leverage ratio indicates that
- A. The dependency of the firm on the debt is more.
 - B. The dependency of the firm on the debt is less.
 - C. The proportion of equity in the total capital is high.
 - D. None of the above

Answer: A

Explanation: Financial leverage is an ability of financial management to magnify the effect of certain change in EBIT over the percentage change in sales over percentage change in EPS by using fixed cost bearing capital in the capital structure. So, financial leverage is observed only when there is a loan capital in the capital structure of the firm. So, DFL implies the dependency of the firm on the debt is more.

58. These decisions affect the liquidity as well as profitability of a business.
- A. Capital budgeting decision
 - B. Financing decision
 - C. Working capital decision
 - D. Dividend decision

Answer: C

Explanation: Working capital decision is directly related with firm's liquidity i.e. the short-term credit worthiness of the firm as well as profitability of the firm because, unnecessary or inadequate investment in working capital has an impact on the profitability of the firm.

59. Primary aim of financial management is to
- A. Maximise shareholder's wealth
 - B. Wealth maximisation concept
 - C. Maximisation of the market value of equity shares
 - D. All of the above

Answer: D

Explanation: Objective of the financial management is to maximise the shareholders wealth maximisation which in turn maximise the market value of equity shares all these concepts comes under the broad objective of wealth maximisation concept.

60. Match the Following

- | | |
|-----------------------|---|
| 1] Earnings per share | i] (Profit after tax - Preference dividend) / Number of Equity shares |
| 2] Operating leverage | ii] Contribution / Earnings before interest and tax |
| 3] Financial leverage | iii] Earning before interest and tax / Earning before tax |
| | iv] Earning per Share/Market Price |

- A. 1-iii, 2-ii, 3-i
 B. 1-ii, 2-iii, 3-iv
 C. 1-i, 2-iii, 3-iv
 D. 1-i, 2-ii, 3-iii

Answer: D

Explanation: EPS= Earnings available to equity share/ No. of equity share

DOL= Contribution/EBIT

DFL= EBIT/EBT (2.3.3)

61. Match the following :

List – I

- I. The presence of fixed cost in the cost structure of a firm.
 II. The presence of fixed return funds in the capital structure of a firm.
 III. Impact of changes in sales on the earnings available to shareholders.

List – II

1. Super leverage
 2. Operating leverage
 3. Financial leverage

| | | | |
|---------|---|----|-----|
| Codes : | I | II | III |
| A. | 1 | 2 | 3 |
| B. | 2 | 3 | 1 |
| C. | 3 | 2 | 1 |
| D. | 1 | 3 | 2 |

Answer: B

Explanation: Financial leverage is an ability of financial management to magnify the effect of certain change in EBIT over the percentage change in sales over percentage change in EPS by using fixed cost bearing capital in the capital structure.

Operating leverage is an ability of financial management to magnify the effect of certain change in sales over the percentage change in sales over percentage change in EBIT by using fixed operating cost in the cost structure.

Combined or Total leverage or Super Leverage is an ability of financial management to magnify the effect of certain change in sales over the percentage change in earnings available for distribution among the equity shareholders by using the fixed cost in the cost structure and fixed cost bearing capital in the capital structure.

62. ----- Method of capital budgeting also known as ‘trial and error’ method.

- A. ARR
- B. NPV
- C. BCR
- D. IRR

Answer: D

Explanation: The internal rate of return (IRR) is the rate required (r) to get an NPV of zero for a series of cash flows. The IRR represents the time-adjusted rate of return for the investment being considered. The IRR decision rule states that if the IRR is greater than or equal to the company’s required rate of return (recall that this is often called the hurdle rate), the investment is accepted; otherwise, the investment is rejected. Trial and error approach allows us to approximate the IRR. If the IRR is greater than or equal to the company’s required rate of return, the investment is accepted; otherwise, the investment is rejected.

63. The process of selecting a combination of investment proposals for the purpose of effectively utilizing firm’s limited fund is known as:

- A. Capital budgeting
- B. Project screening
- C. Capital rationing
- D. Capital expending

Answer: C

Explanation: Capital rationing is the financial situation in which a firm has only fixed amount to allocate among competing capital expenditures.

64. The rate of discount at which NPV of a project becomes zero is also known as

- A. Average Rate of Return
- B. Internal Rate of Return
- C. Alternate Rate of Return
- D. None of the above

Answer: B

Explanation: The internal rate of return (IRR) is the rate required (r) to get an NPV of zero for a series of cash flows. The IRR represents the time-adjusted rate of return for the investment being considered. The IRR decision rule states that if the IRR is greater than or equal to the company’s required rate of return (recall that this is often called the hurdle rate), the investment is accepted; otherwise, the investment is rejected.

65. A portfolio having two risky securities can be turned risk less if

- A. The securities are completely positively correlated
- B. If the correlation ranges between zero and one
- C. The securities are completely negatively correlated
- D. None of the above.

Answer: C

Explanation: The risk of a portfolio is measured using the standard deviation of the portfolio. However, the standard deviation of the portfolio will not be simply the weighted average of the standard deviation of the two assets. We also need to consider the covariance/correlation between the assets. The covariance reflects the co-movement of the returns of the two assets. Unless the two assets are perfectly correlated, the covariance will have the impact of reduction in the overall risk of the portfolio. Thus, when the **correlation coefficient between asset returns is negative unity, it is possible to combine them in a manner will eliminate all risk.**

66. CAPM accounts for:

- A. Unsystematic risk
- B. Systematic risk
- C. Both a and b
- D. None of the above

Answer: B

Explanation:

$$E(R_i) = R(f) + \beta[E(m) - R(f)]$$

Beta is used to measure the systematic risk (the volatility) of the asset relative to the market. Beta can be found by dividing the covariance of the asset and market's returns by the variance of the market.

67. A portfolio comprises two securities and the expected return on them is 12% and 16% respectively. Determine return of portfolio if first security constitutes 40% of total portfolio.

- A. 12.4%
- B. 13.4%
- C. 14.4%
- D. 15.4%

Answer: C

Explanation:

$$R_P = w_1R_1 + w_2R_2$$

or, $0.12 \times 0.4 + 0.16 \times 0.6$

$$R_P = 0.048 + 0.096 = 14.4\%$$

68. Permanent working capital
- A. Varies with seasonal needs
 - B. Includes fixed assets
 - C. Is the amount of current assets
 - D. Includes accounts payable

Answer: C

Explanation: Permanent working capital is the minimum amount of working capital which is required to be maintained on a continuous and uninterrupted basis.

69. Assertion (A) : Weighted average cost of capital should be used as a hurdle rate for accepting or rejecting a capital budgeting proposal.

Reason (R) : It is because by financing in the proportions specified and accepting the project, yielding more than the weighted average required return, the firm is able to increase the market price of its stock.

Codes:

- A. Both (A) and (R) are false.
- B. Both (A) and (R) are true.
- C. (A) is true, while (R) is false.
- D. (A) is false, while (R) is true.

Answer: B

Explanation: Before accepting and implementing certain investment project, its internal rate of return should be equal or greater than the hurdle rate. Any potential investments must possess a return rate that is higher than the hurdle rate in order for it to be acceptable in the long run. Most companies use their weighted average cost of capital (WACC) as hurdle rate. If any project earns more than the weighted average required return, the firm is able to increase the market price of its stock.

70. Match the following

List I

- A. equity shares
- B. Inter corporate deposit
- C. Trade credit

List II

- 1. Deposits raised by business directly from public
- 2. Deposit made by one company with another for a period up to six months
- 3. Permanent source of capital for a company
- 4. Facilitates the purchase of raw material without immediate payment

D. Public Deposits

Codes:

| | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | 1 | 2 | 3 | 4 |
| (B) | 3 | 2 | 4 | 1 |
| (C) | 2 | 3 | 1 | 4 |
| (D) | 4 | 3 | 2 | 1 |

Answer: B

Explanation: Public deposits refer to the unsecured deposits invited by companies from the public mainly to finance working capital needs. Trade credit is an important external source of working capital financing. It is a short-term credit extended by suppliers of goods and services in the normal course of business, to a buyer in order to enhance sales. Trade credit arises when a supplier of goods or services allows customers to pay for goods and services at a later date. Cash is not immediately paid and deferral of payment represents a source of finance. An Inter-Corporate Deposit (ICD) is an unsecured borrowing by corporates and FIs from other corporate entities registered under the Companies Act 1956. Equity shares are the main source of finance of a firm. It is issued to the general public. Equity shareholders do not enjoy any preferential rights with regard to repayment of capital and dividend. It is the Permanent source of capital for a company.

71. Match the following

List I

- A. Market Risk
- B. Inflation risk
- C. Credit Risk
- D. Financial risk

List II

- 1. It is known as insolvency risk
- 2. Risk cause due to the demand and supply pressure
- 3. Risk due to inability to meet firms financial obligations
- 4. Exchange in real value of return as a result of rise in production cost

Codes:

| | (a) | (b) | (c) | (d) |
|----|-----|-----|-----|-----|
| A. | 4 | 3 | 1 | 2 |
| B. | 1 | 3 | 2 | 4 |
| C. | 2 | 4 | 1 | 3 |
| D. | 3 | 2 | 1 | 4 |

Answer: C

Explanation: Credit risk is a measure of the creditworthiness of a borrower. In calculating credit risk, lenders are gauging the likelihood they will recover all of their principal and interest when making a loan. Borrowers considered to be a low credit risk are charged lower interest rate. Lenders, investors, and other counterparties consult ratings agencies to assess the credit risk of doing business with companies. The risk which arises due to use of debt capital in the capital structure of the firm is known as financial risk. Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial market in which he or she is involved. Market risk is also called "systematic risk". Inflation risk, also called purchasing power risk, is the chance that the cash flows from an investment won't be worth as much in the future because of changes in purchasing power due to inflation.

72. The cost of issuing new stock is called

- A. The cost of equity
- B. Marginal cost of capital
- C. Floatation cost
- D. None of these

Answer: C

Explanation: Floatation cost is the cost associated with the issuing and selling of securities.

73. Over capitalisation may not be as a result of which one of the following?

- A. Promotion of a company with inflated assets
- B. Application of low capitalisation rate
- C. Shortage of capital
- D. Liberal dividend policy

Answer: C

Explanation: Indicators of over capitalisation are-

- a) The amount of capital invested in the company's business is much more than the real value of its assets.
- b) Earnings do not represent a fair return on capital employed.
- c) A part of the capital is either idle or invested in assets which are not fully utilised.

74. According to Walter, firm should pay 100% dividend if

- A. $r > k$
- B. $r = k$
- C. $r < k$
- D. none of the above

Answer: C

Explanation: If the firm pays the entire earnings in the form of dividend when cost of capital (k) is higher than the rate of return on investment (r) ($r < k$) firm's value will be maximum. In this case firms will be considering as declining firm.

75. Working capital (s) is /are also called

- A. Revolving capital
- B. Circulating capital
- C. Both (a) and (b)
- D. None of these

Answer: C

Explanation: A **revolving fund** is a fund or account that remains available to finance an organization's continuing operations. **Circulating capital** includes intermediate goods and operating expenses, i.e., short-lived items that are used in production and used up in the process of creating other goods or services. Working capital is the capital which is required for day to day operation of a business. So, working capital is also known as revolving capital or circulating capital.

76. 'Hard-core working capital' is also called

- A. Variable working capital
- B. Permanent working capital
- C. Gross working capital
- D. Net working capital

Answer: B

Explanation: Permanent working capital is the minimum amount of working capital which is required to be maintained on a continuous and uninterrupted basis. Permanent working capital is also known as hard-core working capital.

77. Operating cycle can be shortened by increasing

- A. Manufacturing time
- B. Duration of credit available
- C. Stock held in stores shares
- D. Credit period to the customers

Answer: B

Explanation: Working capital cycle or operating cycle is a cyclical process of continuing flow from cash to suppliers, to inventory, to accounts receivable and back into cash. The requirement of working capital of a firm depends on the length of the operating cycle and consecutive time gap between two stages of operating cycle. When duration of credit available will increase duration of operating cycle will be reduced and requirement of working capital will also be reduced.

78. If the earnings of a company are stable then it can easily follow

- A. Stable dividend policy
- B. Flexible dividend policy
- C. Lower rate dividend policy
- D. None of these

Answer: A

Explanation: A business with a stable dividend policy pays out a steady dividend every given period, regardless of the volatility in the market. This dividend policy is undertaken by the company when the company's earnings are stable. In this stable dividend Policy Company may opt for Constant dividend per share, Constant percentage of earnings and Constant dividend per share plus extra dividend policy.

79. ABC Co. earns Rs. 10 per share, capitalised at 10% and has a return on investment of 12%. What is the optimum dividend pay-out ratio as per Walter's dividend policy model?

- A. 0%
- B. 2%
- C. 10%
- D. 12%

Answer: A

Explanation:

Here, $r=12\%$

$K=10\%$

So, $r > k$, optimum dividend policy will be 0% to maximise the value of the firm under Walter Model.(4.5.2.3)

80. From the following information of ABC Ltd. determine the market price of a share using Gordon's model

Total

Total investment in assets = Rs. 1000000

No. of shares = 50000

Total Earnings = Rs. 200000

Cost of capital = 16%

Payout ratio = 40%

A. Rs. 20

B. Rs. 40

C. Rs. 60

D. Rs. 80

Answer: B

Explanation:

$$P = \frac{E(1-b)}{k-b.r}$$
$$= \frac{0.16 - 0.6 * 0.2}{0.16 - 0.04}$$
$$= \text{Rs. } 40$$

81. ----- method is also known as time adjusted rate of return method.

A. Accounting Rate of Return method

B. Net present value method

C. Internal rate of return method (IRR)

D. None of the above

Answer: C

Explanation: IRR is defined as the rate at which the net present value of the investment is zero. The discounted cash inflow is equal to the discounted cash outflow. IRR is also known as time adjusted rate of return method.

82. Arrange the following in chronological order about the steps of capital budgeting process

1. Project selection
2. Project evaluation
3. Project generation
4. Project execution

Codes:

- A. 3,2,1,4
- B. 3,1,2,4
- C. 2,3,4,1
- D. 4,3,2,1

Answer: A

Explanation: Identification of Potential Investment Opportunities (Project generation)→ Assembling of Investment Proposals→ Decision Making(Project Evaluation)→ Preparation of Capital Budget and Appropriations(Project selection) → Implementation(Project execution)→ Performance Review Techniques of Capital Budgeting Decision.

83. 4. Match the following with the most suitable options.

List-I

- a. Net income approach
- b. Net Operating income approach

List-II

1. Also known as 'Intermediate Approach'
2. Change in the capital structure of a company does not affect the market value of the company and overall cost of capital.
3. It provides analytical sound and logically consistent behavioural justification for their hypothesis.
4. A firm can minimise the overall cost of capital by using debt financing to the maximum extent

c. Traditional approach

d. Modigliani-miller approach

Codes:

- | | a | b | c | d |
|----|---|---|---|---|
| A. | 4 | 2 | 1 | 3 |
| B. | 2 | 1 | 4 | 3 |
| C. | 3 | 4 | 2 | 1 |
| D. | 2 | 1 | 3 | 4 |

Answer: (A)

Explanation: Traditional approach- Also known as 'Intermediate Approach'

Net income approach- As per this approach capital structure decision of a firm has direct relationship with the cost of capital and the value of the firm. A firm can increase its value by lowering the cost of capital and a firm can reduce its cost of capital by using more debt capital in the capital structure.

Net Operating income approach - As per this approach capital structure decision of a firm has no relationship with the cost of capital and the value of the firm i.e. the value of the firm remains unaffected by its capital structure.

Modigliani-miller approach - It provides analytical sound and logically consistent behavioural justification for their hypothesis.

84. Exchange rates are determined in the

- A. Money market
- B. Foreign Exchange Market
- C. Stock Market
- D. Capital Market

Answer: B

Explanation: Exchange rate is related to Foreign Exchange Market.

85. Translation exposures arises in respect of items translated at

- A. Current rate
- B. Historical rate
- C. Average rate
- D. All of these

Answer: A

Explanation: Translation exposures occur when a company's financial statement reporting is affected by the exchange rate volatility. A firm is exposed to translation loss, if it uses current exchange rate to translate its assets and liabilities.

86. Hedging transaction is indicated by

- A. Transaction in odd amounts
- B. Presentation of documentary exposures
- C. Frequency of such transactions
- D. None of the above

Answer: D

Explanation: A foreign exchange hedging strategy is a concept referring to the rules and procedures followed by investors and international businesses to protect their profit margins from foreign exchange volatility when trading currencies. The most common method of hedging currency risk is through the use of hedging products, such as currency swaps, forward contracts and options. These products offset the chance of exchange rate fluctuation in different ways, therefore protecting a company's investment from the risk of losing value.

87. Time value of money indicates that-

- A. A unit of money obtained today is worth more than a unit of money obtained in future.
- B. A unit of money obtained today is worth less than a unit of money obtained in future.
- C. There is no difference in the value of money obtained today and tomorrow.
- D. None of the above

Answer: A

Explanation: The time value of money (TVM) is the concept that money available at the present time is worth more than the identical sum in the future due to its potential earning capacity.

88. Which of the following statement is correct regarding calculation of weighted cost of capital?

- A. Retained earnings are always excluded
- B. Preference capital is given more weight
- C. Cost of issue is considered
- D. Weights are always based on the book values.

Answer: C

Explanation: In calculation of weighted cost of capital cost of issue is always considered.

89. MM theory in perfect market suggests that dividend payment

- A. Has a positive impact on the value of a firm
- B. Has no impact on the value of a firm
- C. Has a negative impact on the value of a firm
- D. Has negligible impact on the firm

Answer: B

Explanation: Modigliani and Miller advocate capital structure irrelevancy theory, which suggests that the valuation of a firm is irrelevant to the capital structure of a company.

90. Which one of the following points is not a merit of payback period method?

- A. Easy to understand
- B. Emphasises liquidity
- C. Not a measure of probability
- D. Uses cash flow information

Answer: C

Explanation: Payback period is the time in which the initial outlay of an investment is expected to be recovered through the cash inflows generated by the investment. It is one of the simplest investment appraisal techniques. It does not consider probability of income received.

91. Match the following

List I

- A. Cost of debt
- B. Cost of preference share capital
- C. Cost of equity share capital
- D. Cost of retained earnings

List II

- 1. Its calculation is relatively difficult task
- 2. The amount of interest payment should be matched with the net cash proceeds of the debt.
- 3. The shareholders have to incur some brokerage cost for investing the dividends received
- 4. The rate of dividend payable on these shares is fixed well in advance at the time of their issue.

Codes:

| | (a) | (b) | (c) | (d) |
|----|-----|-----|-----|-----|
| A. | 4 | 3 | 1 | 2 |
| B. | 2 | 3 | 4 | 1 |
| C. | 3 | 4 | 2 | 1 |
| D. | 2 | 4 | 1 | 3 |

Answer: D

Explanation:

Cost of debt- The amount of interest payment should be matched with the net cash proceed of the debt.

Cost of preference share capital- The rate of dividend payable on these shares is fixed well in advance at the time of their issue.

Cost of equity share capital- Its calculation is relatively difficult task

Cost of retained earnings- The shareholders have to incur some brokerage cost for investing the dividends received.

92. Long term loans are for a period of

- A. One year
- B. Two years
- C. More than five years
- D. None of these

Answer: C

93. A firm with high operating leverage is characterized by _____ while one with high financial leverage is characterized by _____.

- A. Low fixed cost of production; low fixed financial costs
- B. High variable cost of production; high variable financial costs
- C. High fixed costs of production; high fixed financial costs
- D. Low costs of production; high fixed financial costs

Answer: C

Explanation: DOL occurs due to existence of fixed cost in the cost structure of the firm and DFL occurs due to existence of fixed financial cost in the capital structure of the firm.

94. A business concern should not have

- A. Inadequate working capital
- B. Excess working capital
- C. Both (a) and (b)
- D. None of the above

Answer: C

Explanation: Too large and too low working capital both are dangerous for any organisation.

95. Match the following

List I

- A. Gross Working capital
- B. Net working capital
- C. Permanent working capital

List II

- 1. Difference of current assets and current liabilities
- 2. It is referred to as “hard-core working capital”
- 3. It is the excess of working capital over permanent working capital
- 4. Total current assets

D. Variable working capital

Codes:

| | (a) | (b) | (c) | (d) |
|----|-----|-----|-----|-----|
| A. | 4 | 1 | 2 | 3 |
| B. | 3 | 4 | 2 | 1 |
| C. | 2 | 3 | 4 | 1 |
| D. | 3 | 4 | 1 | 2 |

Answer: A

Explanation: Gross working capital: It is the total amount of current assets. It refers to the amount of funds which is invested in current assets.

Net working capital: It is the amount which is excess of current assets over current liabilities. So, it is the excess of long-term sources of funds which is invested in current assets.

Permanent/fixed working capital

It is minimum amount of working capital which is required to be maintained on a continuous and uninterrupted basis. It is also known as hard-core working capital.

Variable/Fluctuating working capital: It is the amount over and above the permanent working capital and it is needed to meet seasonal as well as unforeseen requirements.

96. The overall capitalisation rate and the cost of debt remain constant for all degrees of financial leverage is advocated by

- A. Traditional approach
- B. Net income approach
- C. Net operating income approach
- D. MM approach

Answer: C

Explanation:

Net Operating Income (NOI) Approach

As per this approach capital structure decision of a firm has no relationship with the cost of capital and the value of the firm i.e. the value of the firm remains unaffected by its capital structure.

97.----- varies inversely with profitability

- A. Liquidity
- B. Risk
- C. Return
- D. Loss

Answer: B

Explanation: There is an inverse relationship between risk and profit.

98. SPV stands for

- A. Securities Pool vehicle
- B. Special pool vehicle
- C. Securities purpose vehicle
- D. Special purpose vehicle

Answer: D

Explanation:

SPV= Special Purpose Vehicle

99. Which of the following is the systematic risk?

- A. Market risk
- B. Purchasing power risk
- C. Interest rate risk
- D. All of these

Answer: D

Explanation: Components of systematic risk are Market Risk, Purchasing Power Risk and Interest Rate Risk.

100. Risk of two securities with different expected return can be compared with

- A. Co-efficient of variation
- B. Variance of securities
- C. Standard deviation of securities
- D. None of the above

Answer: A

Explanation:

Coefficient of variation:

It is a measure of relative dispersion or a measure of risk per unit of expected return. It converts standard deviation of expected values into relative units and thus facilitates comparison of risks associated with assets having different expected values. It is calculated by dividing the standard deviation of an asset by its expected value.



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UNIT – 5: BUSINESS STATISTICS AND RESEARCH METHODS

Sub Unit – 1: MEASURES OF CENTRAL TENDENCY

1. The most frequent observation in a data set is called

- a. mode
- b. median
- c. range
- d. mean

Answer: b

Explanation: In statistics and probability theory, a **median** is a value separating the higher half from the lower half of a data sample, a population or a probability distribution. For a data set, it may be thought of as "the middle" value.

2. The summary statistics which measure the middle or center of the data are called

- a. logarithms
- b. measures of central tendency
- c. measures of dispersion
- d. proportions

Answer: b

Explanation: In statistics, a **central tendency** (or **measure of central tendency**) is a central or typical value for a probability distribution. It may also be called a **center** or **location** of the distribution. Colloquially, measures of central tendency are often called averages. The term central tendency dates from the late 1920s. The most common measures of central tendency are the arithmetic mean, the median, the mode and the range.

3. The sum of deviations of values from their mean is always

- a. 1
- b. 0
- c. 2
- d. 3

Answer: b

4. The average of all observations in a set of data is known as

- a. median
- b. range
- c. mean
- d. mode

Answer: c

Explanation: The "mean" is the "average" you're used to, where you add up all the numbers and then divide by the number of numbers.

5. The median in the set 6, 4, 2, 3, 4, 5, 5, 4 would be

- a. 3
- b. 6
- c. 5
- d. 4

Answer: d

6. While computing mean of the grouped data, we assume that the frequencies are:

- (A) evenly distributed over all the classes
- (B) centered at the class marks of the classes
- (C) centered at the upper limits of the classes
- (D) centered at the lower limits of the classes

Answer: B

Explanation: While computing mean of grouped data, we assume that the frequencies are centred at the class marks of the class.

7. If the arithmetic mean of x , $x + 3$, $x + 6$, $x + 9$ and $x + 12$ is 10, then $x = ?$

- (A) 1
- (B) 2
- (C) 6
- (D) 4

Answer: D

Explanation: Summation of $x_i = (x + x+3 + x+6 + x+9 + x+12)$

We know, Mean = (Summation of x_i) \div n

Therefore, $10 = (x + x+3 + x+6 + x+9 + x+12) \div n$

Or $n = 4$

8. If the mean of first n natural numbers is $5n/9$, then $n = ?$

- (A) 6
- (B) 7
- (C) 9
- (D) 10

Answer: C

Explanation:

Since natural numbers forms an A.P.,

\therefore Sum of n natural numbers is:

$$S_n = \frac{n}{2} [2a + (n-1)d]$$

$$S_n = \frac{n}{2} [2 \times 1 + (n-1)1]$$

$$S_n = \frac{n}{2} [n+1]$$

But according to question,

$$\bar{x} = \frac{\frac{n}{2} [n+1]}{n} = \frac{5n}{9}$$

$$\Rightarrow \frac{1}{2} [n+1] = \frac{5n}{9}$$

$$\Rightarrow 9n + 9 = 10n$$

$$\Rightarrow n = 9$$

9. If 35 is removed from the data, 30, 34, 35, 36, 37, 38, 39, 40 then the median increases by:

- (A) 2
- (B) 1.5
- (C) 1
- (D) 0.5

Answer: D

Explanation: We have 30, 34, 35, 36, 37, 38, 39, 40

The data has 8 observations, so there are two middle terms, 4th and 5th term i.e. 36 and 37.

The median is the mean of both these terms.

$$\text{Median} = (36 + 37)/2$$

$$\text{Median} = 36.5$$

When 35 is removed from given data as 30, 35, 36, 37, 38, 39, 40 then the number of observations becomes 7.

Now the median is the middle most i.e 4th term which is equal to 37.

Therefore median is increased by $37 - 36.5 = 0.5$

10. The Median when it is given that mode and mean are 8 and 9 respectively, is:

- (A) 8.57
- (B) 8.67
- (C) 8.97
- (D) 9.24

Answer: B

Explanation: By Empirical formula:

$$\text{Mode} = 3\text{median} - 2 \text{ mean}$$

$$8 = 3\text{median} - 2 \times 9$$

$$8 = 3\text{median} - 18$$

$$3\text{median} = 8 + 18$$

$$\text{Median} = 26/3$$

$$\text{Median} = 8.67$$

Sub Unit – 2: MEASURES OF DISPERSION

11. Statistically, the spread or scatterness of observations in a data is called

- a. discriminant
- b. dispersion
- c. range
- d. standard deviation

Answer: b

Explanation: Dispersion is a statistical term that describes the size of the distribution of values expected for a particular variable. Dispersion can be measured by several different statistics, such as range, variance, and standard deviation.

12. The mean of the squared deviations of some observations from their arithmetic mean is called

- a. standard deviation
- b. variation
- c. median
- d. mode

Answer: b

13. The positive square root of the mean of the squared deviations of some observations from their arithmetic mean is called

- a. standard deviation
- b. variation
- c. median
- d. mode

Answer: a

Explanation: In statistics, the **standard deviation** is a measure of the amount of variation or dispersion of a set of values. A low standard deviation indicates that the values tend to be close to the mean (also called the expected value) of the set, while a high standard deviation indicates that the values are spread out over a wider range.

14. Sum of the deviations of a variable from its mean is always

- a. 0
- b. 1
- c. 2
- d. 5

Answer: a

15. The measures that are used to determine the degree or extent of variation in a data set are called

- a. mean
- b. median
- c. measures of dispersion
- d. measures of central tendency

Answer: c

Explanation: The measure of dispersion indicates the scattering of data. It explains the disparity of data from one another delivering a precise view of the distribution of data. The measure of dispersion displays and gives us an idea about the variation and central value of an individual item.

Sub Unit – 5.3: MEASURES OF SKEWNESS

16. The measurement technique used to measure the extent of skewness in data set values are called

- a. Measure of distribution width
- b. Measure of median tail
- c. Measure of tail distribution
- d. Measure of skewness

Answer: d

Explanation: Skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean. The skewness value can be positive, zero, negative, or undefined.

17. If for a distribution the difference of first quartile and median is greater than difference of median and third quartile then the distribution is classified as

- a. Absolute open ended
- b. Positively skewed
- c. Negatively skewed
- d. Not skewed at all

Answer: b

Explanation: In statistics, a positively skewed (or right-skewed) distribution is a type of distribution in which most values are clustered around the left tail of the distribution while the right tail of the distribution is longer. The positively skewed distribution is a direct opposite of the negatively skewed distribution.

18. If the first quartile and third quartile are as 32 and 35 respectively with the median of 20, then distribution is skewed to

- a. Lower tail
- b. Upper tail
- c. Close end tail
- d. Open end tail

Answer: a

19. If the beta one is 9, beta two is 11, then coefficient of skewness is

- a. 0.589
- b. 0.689
- c. 0.489
- d. 0.889

Answer: b

20. In statistical procedures, the skewness is used to measure the

- a. Amount of variance
- b. Amount of upper tail values
- c. Amount of dispersion
- d. Direction of dispersion

Answer: c

Explanation: Amount of dispersion indicates the scattering of data. It explains the disparity of data from one another delivering a precise view of the distribution of data. The measure of dispersion displays and gives us an idea about the variation and central value of an individual item.

Sub Unit 4: CORRELATION AND REGRESSION OF TWO VARIABLES

21. The method of least squares dictates that we choose a regression line where the sum of the square of deviations of the points from the lie is:

- a. Maximum
- b. Minimum
- c. Zero
- d. Positive

Answer: b

22. A relationship where the flow of the data points is best represented by a curve is called:

- a. Linear relationship
- b. Nonlinear relationship
- c. Linear positive
- d. Linear negative

Answer: a

Explanation: A linear relationship (or linear association) is a statistical term used to describe a straight-line relationship between a variable and a constant. Linear relationships can be expressed either in a graphical format where the variable and the constant are connected via a straight line or in a mathematical format where the independent variable is multiplied by the slope coefficient, added by a constant, which determines the dependent variable.

23. All data points falling along a straight line is called

- a. Linear relationship
- b. Non linear relationship
- c. Residual
- d. Scatter diagram

Answer: a

Explanation: A linear relationship is a term used to describe a straight-line relationship between a variable and a constant. Linear relationships can be expressed either in a graphical format where the variable and the constant are connected via a straight line or in a mathematical format where the independent variable is multiplied by the slope coefficient, added by a constant, which determines the dependent variable.

24. The value we would predict for the dependent variable when the independent variables are all equal to zero is called

- a. Slope
- b. Sum of residual
- c. Intercept
- d. Difficult to tell

Answer: c

Explanation: **Intercept:** When $x = 0$, the corresponding y -value is the y -intercept. In the particular context of word problems, the y -intercept (that is, the point when $x = 0$) also refers to the starting value. For a time-based exercise, this will be the value when you started taking your reading or when you started tracking the time and its related changes.

25. The predicted rate of response of the dependent variable to changes in the independent variable is called

- a. Slope
- b. Intercept
- c. Error
- d. Regression equation

Answer: a

Explanation: **Slope:** Very often, linear-equation word problems deal with changes over the course of time; the equations will deal with how much something (represented by the value on the vertical axis) changes as time (represented on the horizontal axis) passes.

26. The slope of the regression line of Y on X is also called the

- a. Correlation coefficient of X on Y
- b. Correlation coefficient of Y on X
- c. Regression coefficient of X on Y
- d. Regression coefficient of Y on X

Answer: d

27. In simple linear regression, the numbers of unknown constants are

- a. One
- b. Two
- c. Three
- d. Four

Answer: b

28. In simple regression equation, the numbers of variables involved are:

- a. 0
- b. 1
- c. 2
- d. 3

Answer: c

29. If the value of any regression coefficient is zero, then two variables are

- a. Qualitative
- b. Correlation
- c. Dependent
- d. Independent

Answer: d

30. In practice, Line of best fit or regression line is found when _____

- a) Sum of residuals ($\sum(Y - h(X))$) is minimum
- b) Sum of the absolute value of residuals ($\sum|Y-h(X)|$) is maximum
- c) Sum of the square of residuals ($\sum (Y-h(X))^2$) is minimum
- d) Sum of the square of residuals ($\sum (Y-h(X))^2$) is maximum

Answer: c

31. If linear regression model perfectly first i.e., train error is zero, then

- a) Test error is also always zero
- b) Test error is non zero
- c) Couldn't comment on Test error
- d) Test error is equal to Train error

Answer: c

32. Which of the following metrics can be used for evaluating regression models?

- i) R Squared
 - ii) Adjusted R Squared
 - iii) F Statistics
 - iv) RMSE / MSE / MAE
- a) ii and iv
 - b) i and ii
 - c) ii, iii and iv
 - d) i, ii, iii and iv

Answer: d

33. How many coefficients do you need to estimate in a simple linear regression model (One independent variable)?

- a) 1
- b) 2
- c) 3
- d) 4

Answer: b

34. In a simple linear regression model (One independent variable), If we change the input variable by 1 unit. How much output variable will change?

- a) by 1
- b) no change
- c) by intercept
- d) by its slope

Answer: d

35. Function used for linear regression in R is _____

- a) `lm(formula, data)`
- b) `lr(formula, data)`
- c) `lrm(formula, data)`
- d) `regression.linear(formula, data)`

Answer: a

36. In syntax of linear model $\text{lm}(\text{formula}, \text{data}, \dots)$, data refers to _____

- a) Matrix
- b) Vector
- c) Array
- d) List

Answer: b

37. In the mathematical Equation of Linear Regression $Y = \beta_1 + \beta_2 X + \epsilon$, (β_1, β_2) refers to _____

- a) (X-intercept, Slope)
- b) (Slope, X-Intercept)
- c) (Y-Intercept, Slope)
- d) (slope, Y-Intercept)

Answer: c

Sub Unit – 5: PROBABILITY

38. A card is drawn from a well shuffled deck of 52 cards. Find the probability of getting a king of red suit.

- (A) $1/26$
- (B) $3/26$
- (C) $7/52$
- (D) $1/13$

Answer: A

39. A game of chance consists of spinning an arrow which is equally likely to come to rest pointing to one of the number 1,2,3.....12 ,then the probability that it will point to an odd number is:

- (A) $1/6$
- (B) $1/12$
- (C) $7/12$
- (D) $5/12$

Answer: A

40. A number x is chosen at random from the numbers -2, -1, 0, 1, 2. Then the probability that $x^2 < 2$ is?

- (A) $1/5$
- (B) $2/5$
- (C) $3/5$
- (D) $4/5$

Answer: C

41. Mutually Exclusive events _____

- a) Contain all sample points
- b) Contain all common sample points
- c) Does not contain any sample point
- d) Does not contain any common sample point

Answer: d

42. The expected value of a discrete random variable ' x ' is given by _____

- a) $P(x)$
- b) $\sum P(x)$
- c) $\sum x P(x)$
- d) 1

Answer: c

43. If ' X ' is a continuous random variable, then the expected value is given by _____

- a) $P(X)$
- b) $\sum x P(x)$
- c) $\int X P(X)$
- d) No value such as expected value

Answer: c

44. Out of the following values, which one is not possible in probability?

- a) $P(x) = 1$
- b) $\sum x P(x) = 3$
- c) $P(x) = 0.5$
- d) $P(x) = -0.5$

Answer: d

Explanation: The value of probability lies between 0 and 1.

45. In a drawer there are 4 white socks, 3 blue socks and 5 grey socks. Two socks are picked randomly. What is the possibility that both the socks are of same color?

- a. $4/11$
- b. 1
- c. $2/33$
- d. $19/66$

Answer: d

46. Three companies A, B and C supply 25%, 35% and 40% of the notebooks to a school. Past experience shows that 5%, 4% and 2% of the notebooks produced by these companies are defective. If a notebook was found to be defective, what is the probability that the notebook was supplied by A?

- a) $44/69$
- b) $25/69$
- c) $13/24$
- d) $11/24$

Answer: b

47. Previous probabilities in Bayes Theorem that are changed with help of new available information are classified as _____

- a) independent probabilities
- b) posterior probabilities
- c) interior probabilities
- d) dependent probabilities

Answer: b

Explanation: In Bayesian statistics, the **posterior probability** of a random event or an uncertain proposition is the conditional probability that is assigned after the relevant evidence or background is taken into account. "Posterior", in this context, means after taking into account the relevant evidences related to the particular case being examined.

48. At a certain university, 4% of men are over 6 feet tall and 1% of women are over 6 feet tall. The total student population is divided in the ratio 3:2 in favour of women. If a student is selected at random from among all those over six feet tall, what is the probability that the student is a woman?

- a) $2/5$
- b) $3/5$
- c) $3/11$
- d) $1/100$

Answer: c

49. An urn B_1 contains 2 white and 3 black chips and another urn B_2 contains 3 white and 4 black chips. One urn is selected at random and a chip is drawn from it. If the chip

drawn is found black, find the probability that the urn chosen was B₁.

- a) $\frac{4}{7}$
- b) $\frac{3}{7}$
- c) $\frac{20}{41}$
- d) $\frac{21}{41}$

Answer: d

50. Suppose box A contains 4 red and 5 blue coins and box B contains 6 red and 3 blue coins. A coin is chosen at random from the box A and placed in box B. Finally, a coin is chosen at random from among those now in box B. What is the probability a blue coin was transferred from box A to box B given that the coin chosen from box B is red?

- a) $\frac{15}{29}$
- b) $\frac{14}{29}$
- c) $\frac{1}{2}$
- d) $\frac{7}{10}$

Answer: a

Sub Unit –6: PROBABILITY DISTRIBUTION

51. Which of the following mentioned standard Probability density functions is applicable to discrete Random Variables?

- a) Gaussian Distribution
- b) Poisson Distribution
- c) Rayleigh Distribution
- d) Exponential Distribution

Answer: b

Explanation: In probability theory and statistics, the **Poisson distribution** is a discrete probability distribution that expresses the probability of a given number of events occurring in a fixed interval of time or space if these events occur with a known constant mean rate and independently of the time since the last event. The Poisson distribution can also be used for the number of events in other specified intervals such as distance, area or volume.

52. A table with all possible value of a random variable and its corresponding probabilities is called _____

- a) Probability Mass Function

- b) Probability Density Function
- c) Cumulative distribution function
- d) Probability Distribution

Answer: d

Explanation: In probability theory and statistics, a **probability distribution** is the mathematical function that gives the probabilities of occurrence of different possible **outcomes** for an experiment. It is a mathematical description of a random phenomenon in terms of its sample space and the probabilities of events (subsets of the sample space).

53. A variable that can assume any value between two given points is called _____

- a) Continuous random variable
- b) Discrete random variable
- c) Irregular random variable
- d) Uncertain random variable

Answer: a

Explanation: A **continuous random variable** is a random variable where the data can take infinitely many values. For example, a random variable measuring the time taken for something to be done is continuous since there are an infinite number of possible times that can be taken.

54. If a variable has certain integer values between two given points is called _____

- a) Continuous random variable
- b) Discrete random variable
- c) Irregular random variable
- d) Uncertain random variable

Answer: b

Explanation: Discrete random variables can take on either a finite or at most a countably infinite set of discrete values (for example, the integers). Their probability distribution is given by a probability mass function which directly maps each value of the random variable to a probability.

55. In a Binomial Distribution, if 'n' is the number of trials and 'p' is the probability of success, then the mean value is given by _____

- a) np
- b) n
- c) p
- d) $np(1-p)$

Answer: a

56. In a Binomial Distribution, if p , q and n are probability of success, failure and number of trials respectively then variance is given by _____

- a) np
- b) npq
- c) np^2q
- d) npq^2

Answer: b

57. If 'X' is a random variable, taking values 'x', probability of success and failure being 'p' and 'q' respectively and 'n' trials being conducted, then what is the probability that 'X' takes values 'x'? Use Binomial Distribution

- a) $P(X = x) = {}^nC_x p^x q^x$
- b) $P(X = x) = {}^nC_x p^x q^{(n-x)}$
- c) $P(X = x) = {}^xC_n q^x p^{(n-x)}$
- d) $P(x = x) = {}^xC_n p^n q^x$

Answer: b

58. It is suitable to use Binomial Distribution only for _____

- a) Large values of 'n'
- b) Fractional values of 'n'
- c) Small values of 'n'
- d) Any value of 'n'

Answer: c

59. For larger values of 'n', Binomial Distribution _____

- a) loses its discreteness
- b) tends to Poisson Distribution
- c) stays as it is
- d) gives oscillatory values

Answer: b

60. Binomial Distribution is a _____

- a) Continuous distribution
- b) Discrete distribution
- c) Irregular distribution
- d) Not a Probability distribution

Answer: b

Explanation: A discrete distribution is a statistical distribution that shows the probabilities of discrete (countable) outcomes, such as 1, 2, 3... Statistical distributions can be either discrete or continuous.

61. In a Binomial Distribution, if $p = q$, then $P(X = x)$ is given by?

- a) ${}^nC_x (0.5)^n$
- b) ${}^nC_n (0.5)^n$
- c) ${}^nC_x p^{(n-x)}$
- d) ${}^nC_n p^{(n-x)}$

Answer: a

62. In a Poisson Distribution, if 'n' is the number of trials and 'p' is the probability of success, then the mean value is given by?

- a) $m = np$
- b) $m = (np)^2$
- c) $m = np(1-p)$
- d) $m = p$

Answer: a

63. If 'm' is the mean of a Poisson Distribution, then variance is given by _____

- a) m^2
- b) $m^{1/2}$
- c) m
- d) $m^{3/2}$

Answer: c

Explanation: In Poisson distribution, mean and variance are same which is represented by 'm'.

64. Poisson distribution is applied for _____

- a) Continuous Random Variable
- b) Discrete Random Variable
- c) Irregular Random Variable
- d) Uncertain Random Variable

Answer: b

Explanation: Discrete random variables can take on either a finite or at most a countably infinite set of discrete values (for example, the integers). Their probability distribution is given by a probability mass function which directly maps each value of the random variable to a probability.

65. If 'm' is the mean of Poisson Distribution, the $P(0)$ is given by _____

- a) e^{-m}
- b) e^m
- c) e
- d) m^{-e}

Answer: a

66. For a Poisson Distribution, if mean (m) = 1, then $P(1)$ is?

- a) $1/e$
- b) e
- c) $e/2$
- d) Indeterminate

Answer: a

67. Normal Distribution is applied for _____

- a) Continuous Random Distribution
- b) Discrete Random Variable
- c) Irregular Random Variable
- d) Uncertain Random Variable

Answer: a

68. Normal Distribution is symmetric is about _____

- a) Variance
- b) Mean
- c) Standard deviation
- d) Covariance

Answer: b

Explanation: Normal distribution, also known as the Gaussian distribution, is a probability distribution that is symmetric about the mean, showing that data near the mean are more frequent in occurrence than data far from the mean.

69. The area under a standard normal curve is?

- a) 0
- b) 1
- c) ∞
- d) not defined

Answer: b

70. The standard normal curve is symmetric about the value _____

- a) 0.5
- b) 1
- c) ∞
- d) 0

Answer: d

71. Normal Distribution is also known as _____

- a) Cauchy's Distribution
- b) Laplacian Distribution
- c) Gaussian Distribution
- d) Lagrangian Distribution

Answer: c

72. Skewness of Normal distribution is _____

- a) Negative
- b) Positive
- c) 0
- d) Undefined

Answer: c

73. The shape of the normal curve depends on its _____

- a) Mean deviation
- b) Standard deviation
- c) Quartile deviation
- d) Correlation

Answer: b

74. The value of constant 'e' appearing in normal distribution is _____

- a) 2.5185
- b) 2.7836
- c) 2.1783
- d) 2.7183

Answer: d.

75. In Standard normal distribution, the value of mode is _____

- a) 2
- b) 1
- c) 0
- d) Not fixed

Answer: c

76. In Standard normal distribution, the value of median is _____

- a) 1
- b) 0
- c) 2
- d) Not fixed

Answer: b

Sub Unit – 7: RESEARCH

77. What is a research design?

- a. A way of conducting research that is not grounded in theory.
- b. The choice between using qualitative or quantitative methods.
- c. The style in which you present your research findings, e.g. a graph.
- d. A framework for every stage of the collection and analysis of data.

Answer: d

78. If a study is "reliable", this means that

- a. the methods are outlined in the methods discussion clearly enough for the research to be replicated.
- b. the measures devised for concepts are stable on different occasions.
- c. the findings can be generalized to other social phenomena
- d. it was conducted by a reputable researcher who can be trusted.

Answer: b

Sub Unit – 8: DATA

79. A researcher can evaluate their hypothesis on the basis of

- a. Collected data
- b. Evaluated data
- c. Secondary data
- d. All of the above

Answer: a

Explanation: Data collection is defined as the procedure of collecting, measuring and analyzing accurate insights for research using standard validated techniques. A researcher can evaluate their hypothesis on the basis of collected data.

80. Focus groups is a method of

- a. Data analysis
- b. Data collection
- c. Data processing
- d. Both a and b

Answer: b

Explanation: Data collection is defined as the procedure of collecting, measuring and analyzing accurate insights for research using standard validated techniques. A researcher can evaluate their hypothesis on the basis of collected data.

81. The most passive qualitative data collection methods is

- a. 1-on-1 Interviews
- b. Focus groups
- c. Open-Ended Surveys and Questionnaires
- d. Direct observation

Answer: d

Explanation: Direct observation is the collection of information using your senses. By observing, you can document activities, behavior, and physical aspects of a situation without having to depend on peoples' willingness or ability to respond accurately to questions

82. Purpose of Data Classification is

- a. Confidentiality
- b. Integrity of data
- c. Availability of data
- d. All of the above

Answer: d

Sub Unit – 9: SAMPLING AND ESTIMATION

83. What does the central limit theorem state?

- a) if the sample size increases sampling distribution must approach normal distribution
- b) if the sample size decreases then the sample distribution must approach normal distribution
- c) if the sample size increases then the sampling distribution much approach an exponential distribution
- d) if the sample size decreases then the sampling distribution much approach an exponential distribution

Answer: a

84. The difference between the sample value expected and the estimate value of the parameter is called as?

- a) bias
- b) error
- c) contradiction
- d) difference

Answer: a

Explanation: In statistics, **sampling bias** is a bias in which a sample is collected in such a way that some members of the intended population have a lower or higher sampling probability than others. It results in a **biased sample**, a non-random sample of a population (or non-human factors) in which all individuals, or instances, were not equally likely to have been selected.

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85. In which of the following types of sampling the information is carried out under the opinion of an expert?

- a) quota sampling
- b) convenience sampling
- c) purposive sampling
- d) judgement sampling

Answer: d

Explanation: Judgment sampling, also referred to as judgmental sampling or authoritative sampling, is a non-probability sampling technique where the researcher selects units to be sampled based on his own existing knowledge, or his professional judgment.

86. Which of the following is a subset of population?

- a) distribution
- b) sample
- c) data
- d) set

Answer: b

Explanation: A sample refers to a smaller, manageable version of a larger group. It is a subset containing the characteristics of a larger population. Samples are used in statistical testing when population sizes are too large for the test to include all possible members or observations. A sample should represent the population as a whole and not reflect any bias toward a specific attribute.

87. The sampling error is defined as?

- a) difference between population and parameter
- b) difference between sample and parameter
- c) difference between population and sample
- d) difference between parameter and sample

Answer: c

88. Any population which we want to study is referred as?

- a) standard population
- b) final population
- c) infinite population
- d) target population

Answer: d

Explanation: In research, we are interested in learning about large groups of people who all have something in common. We call the group that we are interested in studying our 'target population'.

89. Suppose we want to make a voters list for the general elections 2019 then we require

-
- a) sampling error
 - b) random error
 - c) census
 - d) simple error

Answer: c

90. Selection of a football team for FIFA World Cup is called as?

- a) random sampling
- b) systematic sampling
- c) purposive sampling
- d) cluster sampling

Answer: c

Explanation: Purposive sampling, also known as judgmental, selective, or subjective sampling, is a form of non-probability sampling in which researchers rely on their own judgment when choosing members of the population to participate in their study.

91. What are the factors causing sampling error?

- a. method of sample selection
- b. sample size
- c. both a. and b.
- d. none of the above

Answer: c

92. Which sampling method is used when simple random sampling method becomes inconvenient to use in large lots?

- a. systematic sampling
- b. stratified sampling
- c. cluster sampling
- d. sampling in stages

Answer: b

Explanation: In statistics, **stratified sampling** is a method of sampling from a population which can be partitioned into subpopulations. **Stratification** is the process of dividing members of the population into homogeneous subgroups before sampling. The strata should define a partition of the population.

Sub Unit – 10 HYPOTHESIS TESTING

93. What is ANOVA in statistical analysis?

- a) Analysis of variance
- b) Analysis of various attributes of statistics
- c) Analysis of non-observable variables
- d) Assessment of various attributes of statistics

Answer: a

Explanation: Analysis of variance (ANOVA) is a collection of statistical models and their associated estimation procedures (such as the "variation" among and between groups) used to analyze the differences among group means in a sample. In its simplest form, ANOVA provides a statistical test of whether two or more population means are equal, and therefore generalizes the t-test beyond two means.

94. A paired T test consists of n pairs of observations. What is the number of degrees of freedom of the test?

- a) $2n-1$
- b) $2n$
- c) $n-1$
- d) n

Answer: c

95. Which Chi Square distribution looks the most like a normal distribution?

- a) A Chi Square distribution with 4 degrees of freedom
- b) A Chi Square distribution with 5 degrees of freedom
- c) A Chi Square distribution with 6 degrees of freedom
- d) A Chi Square distribution with 16 degrees of freedom

Answer: d

96. Which of these distributions is used for a testing hypothesis?

- a) Normal Distribution
- b) Chi-Squared Distribution
- c) Gamma Distribution
- d) Poisson Distribution

Answer: b

Explanation: In probability theory and statistics, the **chi-square distribution** (also **chi-squared** or **χ^2 -distribution**) with k degrees of freedom is the distribution of a sum of the squares of k independent standard normal random variables. The chi-square distribution is a special case of the gamma distribution and is one of the most widely used probability distributions in inferential statistics, notably in hypothesis testing and in construction of confidence intervals.

Sub Unit – 11: REPORT WRITING

97. Which of these reports provide information without any evaluation?

- a) Informational
- b) Interpretative
- c) Routine
- d) Progress

Answer: a

98. _____ report provides rational findings.

- a) Informative
- b) Interpretative
- c) Routine
- d) Progress

Answer: b

99. Interpretative reports are also known as _____

- a) recommendation reports
- b) routine reports
- c) progress reports
- d) informal reports

Answer: a

100. Which of these reports are written for recording information?

- a) Informational
- b) Interpretative
- c) Routine
- d) Recommendation

Answer: c



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UNIT – 6: BUSINESS MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

Sub Unit – 1: PRINCIPLES AND FUNCTIONS OF MANAGEMENT

1. Who said “Management is management of Men, Money, Machinery, Materials and Information”?

- (A) Peter Drucker
- (B) Henry Fayol
- (C) Koontz & O'Donell
- (D) Anonymous

Answer: D

2. ____ is getting things done through and with other people.

- (A) Managing
- (B) Controlling
- (C) Directing
- (D) None of the above

Answer: A

3. ____ among the following was the first to identify four functions of management

- (A) Henry Fayol
- (B) F.W. Taylor
- (C) Max Weber
- (D) Harold Koontz

Answer: A

4. Fayol's principle of division of work can be applied to the following kind of work

- (A) Technical
- (B) Managerial
- (C) Both
- (D) None of these

Answer: C

Explanation: The **division of work** is the course of tasks assigned to, and completed by, a group of workers in order to increase efficiency. Division of work, which is also known as division of labor, is the breaking down of a job so as to have a number of different tasks that make up the whole. This means that for every one job, there can be any number of processes that must occur for the job to be complete.

5. General theory of administration is the expression of

- (A) Henry Fayol
- (B) F.W. Taylor
- (C) Max Weber
- (D) F.L. Brech

Answer: C

Sub Unit – 2: ORGANIZATION STRUCTURE: FORMAL AND INFORMAL ORGANIZATIONS; SPAN OF CONTROL

6. Match the following structures with their respective strengths and weaknesses.

- I. Simple Structure ----- A. Flexible and limited applicability
 - II. Machine Bureaucracy ----- B. Performing standard activities efficiently and subunit conflicts
 - III. Professional Bureaucracy----- C. Performing specialised tasks and compulsion to follow rules
 - IV. Divisional Structure ----- D. functional goals override organisational goals
 - V. Adhocracy -----E. Ad-hoc teams and conflicts
- a. I-A, II-B, III-C, IV-D, V-E
 - b. I-B, II-C, III-E, IV-A, V-D
 - c. I-C, II-E, III-A, IV-D, V-B
 - d. I-E, II-A, III-B, IV-C, V-D

Answer: a

7. A network of social relationship that arise spontaneously due to interaction at work is called

- (a) formal organisation
- (b) informal organisation
- (c) decentralisation
- (d) delegation

Answer: b

Explanation: The **informal organization** is the interlocking social structure that governs how people work together in practice. It is the aggregate of norms, personal and professional connections through which work gets done and relationships are built among people who share a common organizational affiliation or cluster of affiliations. It consists of a dynamic set of personal relationships, social networks, communities of common interest, and emotional sources of motivation.

8. Which of the following does not follow the scalar chain?

- (a) Functional structure
- (b) Divisional structure
- (c) Formal organisation
- (d) Informal organisation

Answer: d

9. A tall structure has a

- (a) narrow span of management
- (b) wide span of management
- (c) no span of management
- (d) less levels of management

Answer: a

Explanation: A tall structure results in one long chain of command similar to the military. As an organization grows, the number of management levels increases and the structure grows taller. In a tall structure, managers form many ranks and each has a small area of control.

10. Span of management refers to

- (a) number of managers
- (b) length of term for which a manager is appointed
- (c) number of subordinates under a superior
- (d) number of members in top management

Answer: c

Explanation: The **Span of Management** refers to the number of subordinates who can be managed efficiently by a superior. Simply, the manager having the group of subordinates who report him directly is called as the span of management.

Sub Unit – 3: RESPONSIBILITY AND AUTHORITY: DELEGATION OF AUTHORITY AND DECENTRALIZATION

11. Which of the following is not an element of delegation?

- (a) Accountability
- (b) Authority
- (c) Responsibility
- (d) Informal organisation

Answer: d

Explanation: Delegation is the assignment of any authority to another person (normally from a manager to a subordinate) to carry out specific activities. It is one of the core concepts of management leadership. However, the person who delegated the work remains accountable for the outcome of the delegated work. Delegation empowers a subordinate to make decisions, i.e. it is a shifting of decision-making authority from one organizational level to a lower one.

12. For delegation to be effective, it is essential that responsibility be accompanied with necessary

- (a) authority
- (b) manpower
- (c) incentives
- (d) promotions

Answer: a

Explanation: In an organization, a manager is not expected to do all the work. He has numerous functions of management on which he has to focus. So the routine day-to-day work is delegated to his subordinates. And along with the delegation of work, there is also the delegation of authority so that the subordinate can accomplish his tasks.

13. Advantage of delegation of authority results in prompt _____.

- (A) Understanding
- (B) Decision making
- (C) Both (A) and (B)
- (D) None of the above

Answer: B

Sub Unit – 6.4: MOTIVATION AND LEADERSHIP: CONCEPT AND THEORIES

14. Positive motivation makes people willing to do their work in the best way they can and improve their _____.

- (A) Skills
- (B) Performance
- (C) Both (A) and (B)
- (D) None of the above

Answer: B

Explanation: Employee motivation is a critical aspect at the workplace which leads to the performance of the department and even the company. Motivating your employees needs to be a regular routine.

15. Rearrange the steps of Maslow's Need Hierarchy Theory.

- A. Self - Actualization Needs
 - B. Physiological needs
 - C. Belongingness and love needs
 - D. Self - esteem needs
 - E. Safety needs
- a. ABCDE
 - b. ADCBE
 - c. DCBEA
 - d. ADCEB

Answer: d

16. Who propounded the Need's Theory

- a. Frederick Herzberg
- b. Alderfer
- c. Abraham Harold Maslow
- d. None of the above

Answer: c

17. The two-factor theory is based on which factors?

- a. Hygiene and behavioural
- b. Safety and self - esteem
- c. Self - actualisation and status quotient
- d. None of the above

Answer: a

Explanation: **Hygiene factors** (e.g. status, job security, salary, fringe benefits, work conditions, good pay, paid insurance, vacations) that do not give positive satisfaction or lead to higher motivation, though dissatisfaction results from their absence. The term "hygiene" is used in the sense that these are maintenance factors. These are extrinsic to the work itself, and include aspects such as company policies, supervisory practices, or wages/salary.

18. _____ and _____ came out with a comprehensive theory of motivation called the performance - satisfaction model.

- a. Festinger and Heider
- b. Jacques and Patchen
- c. Porter and Lawler
- d. Weick and Adams

Answer: c

19. The Great Man theory is associated with which of the following approaches to studying leadership?

- a. skills
- b. intelligences
- c. styles
- d. traits

Answer: d

Explanation: This theory rests on two main assumptions, as pointed out by the Villanova University

1. Every great leader is born already possessing certain traits that will enable them to rise and lead, on instinct.
2. The need for them has to be great for these traits to then arise, allowing them to lead.

20. What is the predominant focus and purpose of early contingency theories? To explain and predict _____.

- a. strategic leadership
- b. ethical leadership
- c. effective leadership
- d. sustainable leadership

Answer: c

Explanation: Contingency theories hold that leadership effectiveness is related to the interplay of a leader's traits or behaviors and situational factors.

21. What follower characteristic does Hersey and Blanchard's (1971) situational leadership theory suggest a leader has to adjust their behaviour to?

- a. subordinate readiness
- b. subordinate willingness
- c. subordinate maturity
- d. subordinate technical ability

Answer: c

Explanation: The Situational Leadership Model has two fundamental concepts: leadership style and the individual or group's performance readiness level, also referred to as maturity level or development level.

22. What does LPC stand for in Fiedler's contingency theory?

- a. low performance context
- b. least preferred co-worker
- c. low power context
- d. least performing co-worker

Answer: b

Sub Unit – 5: CORPORATE GOVERNANCE AND BUSINESS ETHICS

23. What is the concept purpose of the quoted line. “To separate ownership and management control of organizations and to make organizations more visibly accountable to wider range of stakeholders.”

- (1) Business ethics
- (2) Business malpractice
- (3) Corporate Governance
- (4) National Commission
- (5) None of these

Answer: 3

Explanation: Good corporate governance helps companies build trust with investors and the community. As a result, corporate governance helps promote financial viability by creating a long-term investment opportunity for market participants.

24. The purpose of _____ is to regulate both objectives of business and the means adopted to achieve them.

- (1) Marketing ethic
- (2) Business ethics
- (3) Good ethics
- (4) Bad ethics

Answer: 2

Explanation: Business ethics is the study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities. The law often guides business ethics, but at other times business ethics provide a basic guideline that businesses can choose to follow to gain public approval.

Sub Unit – 6: HUMAN RESOURCE MANAGEMENT (HRM)

25. _____ is the process of forecasting an organizations future demand for, and supply of, the right type of people in the right number.

- a. Human Resource Planning
- b. Recruitments
- c. Human Resource Management
- d. Human Capital Management

Answer: a

Explanation: Human resource planning (HRP) is the continuous process of systematic planning ahead to achieve optimum use of an organization's most valuable asset quality employees. Human resources planning ensure the best fit between employees and jobs while avoiding manpower shortages or surpluses.

26. Which of the following factors state the importance of the Human Resource Planning?

- a. Creating highly talented personnel
- b. International strategies
- c. Resistance to change and move
- d. All of the above

Answer: d

27. A process that is used for identifying and developing internal people with the potential to fill key business leadership positions in the company is called _____.

- a. Highly talented personnel creation
- b. Investing in human resources
- c. Succession planning
- d. None of the above

Answer: c

Explanation: Succession planning is a process for identifying and developing new leaders, who can replace old leaders when they leave, retire or die. Succession planning increases the availability of experienced and capable employees that are prepared to assume these roles as they become available. Taken narrowly, "replacement planning" for key roles is the heart of succession planning.

28. Which of the following option is not the factor that hinders with the human resource planning process?

- a. Type and quality of forecasting information
- b. Time horizons
- c. Environmental uncertainties
- d. Unite the perspectives of line and staff managers

Answer: d

29. Rearrange the following steps involved in the Human resource planning process in proper order.

- A. HR Programming
 - B. HR Demand Forecast
 - C. Environmental Scanning
 - D. Control and evaluation of programme
 - E. Surplus - restricted hiring
 - F. HRP implementation
 - G. HR supply forecast
 - H. Organisational objectives and Policies
 - I. Shortage - Recruitments and Selection
- a. ABCDEFGHI
 - b. CHBGAFDEI
 - c. IHDEBCAFG
 - d. IHGFEDCBA

Answer: b

30. Which of the following is a barrier while doing human resource planning?

- a. HR information often is incompatible with the information used in strategy formulation
- b. Implementing human resource information system
- c. Managing inventories
- d. Supply forecast

Answer: a

31. What are the pre- requisites for successful human resource planning?

- a. Backing of top management
- b. Personal records must be complete
- c. Techniques of planning should be the best
- d. All of the above

Answer: d

32. Which of the following is requisite for a typical succession planning?

- a. Career counselling
- b. Performance appraisal
- c. Compensation plan
- d. Employees quitting

Answer: a

33. The poor quality of selection will mean extra cost on _____ and supervision.

- a. Training
- b. Recruitment
- c. Work quality
- d. None of the above

Answer: a

34. Which of these is the most important external factor governing recruitments?

- a. Sons of soil
- b. Labour market
- c. Unemployment rate
- d. Supply and demand

Answer: d

Explanation: The availability of manpower both within and outside the organization is an essential factor in the recruitment process.

35. Which of the following act deals with recruitment and selection?

- a. Child labour act
- b. The apprentices act
- c. Mines act
- d. All of the above

Answer: d

36. _____ refers to the process of identifying and attracting job seekers so as to build a pool of qualified job applicants.

- a. Selection
- b. Training
- c. Recruitments
- d. Induction

Answer: c

Explanation: Recruitment is a positive process of searching for prospective employees and stimulating them to apply for the jobs in the organisation.

37. How many stages does the recruitment process comprise of?

- a. 2
- b. 6
- c. 9
- d. 5

Answer: d

38. Rearrange the following steps of recruitment.

- I. Searching
- II. Evaluation and control
- III. Planning
- IV. Screening
- V. Strategy development

- a. III, II, I, V, IV
- b. III, V, I, IV, II
- c. IV, V, III, I, II
- d. II, I, IV, V, III

Answer: b

39. What is the natural perception of people on the process of recruitment and selection?

- a. Positive
- b. Negative
- c. Both positive and negative
- d. None of the above

Answer: a

40. What is the main objective of the recruitment and selection process?

- a. Recruit the right candidates
- b. Meet the high labour turnover
- c. To reduce the costs of recruiting
- d. None of the above

Answer: b

Explanation: Recruitment and selection procedures have evolved in the last few years since the job market has increasingly become candidate-driven. Recruitment is no longer confined to the organization's wants. With an eye on hiring the best possible candidates, providing a good candidate experience has become one of the foremost priorities of HRs.

41. Which mode of recruitment is through advertisements, newspapers and want ads?

- a. Direct
- b. Indirect
- c. On payroll
- d. None of the above

Answer: b

Explanation: Indirect methods include advertisements in news papers, on the radio and television, in professional journals, technical magazines etc.

42. Which is the least expensive method for recruitments?

- a. Walk - ins, write - ins and talk - ins
- b. Campus placements
- c. Employment exchanges
- d. Consultants

Answer: a

43. Which of the following are general costs incurred in the recruitment process?

- a. Costs of material
- b. Costs of overtime and outsourcing while the vacancies remain unfilled
- c. Costs of property
- d. None of the above

Answer: b

44. Which of these is an alternative to recruitments?

- a. Employee leasing
- b. Contractors
- c. Trade associations
- d. None of the above

Answer: a

Explanation: Employee leasing is when an organization partners with a staffing agency that sends workers to the organization and pays their salary and benefits. Organizations should identify agencies who understand their industry and the type of labor needed.

45. Selection is _____ in its application as much as it seeks to eliminate as many unqualified applications as possible in order to identify the right candidates.

- a. Both negative and positive
- b. Positive
- c. Negative
- d. None of the above

Answer: c

Explanation: Selection is called as a negative process with its elimination or rejection of as many candidates as possible for identifying the right candidate for the position.

46. Rejection of an applicant who would have succeeded is _____.

- a. False positive error
- b. True positive
- c. True negative
- d. False negative error

Answer: d

47. Selection is now _____ and is handled by the human resource department.

- a. Unplanned
- b. Outsourced
- c. Centralised
- d. None of the above

Answer: c

48. Which country uses the graphology test to select candidates?

- a. U.S
- b. India
- c. Germany
- d. China

Answer: a

49. Which tests are designed to ensure accuracy of the information given in the applications?

- a. Graphology test
- b. Interest test
- c. Grammatology test
- d. Polygraph test

Answer: d

50. In _____, the interviewer uses pre-set standardised questions which are put to all applicants.

- a. Unstructured interview
- b. Structured interview
- c. Behavioural interview
- d. Mixed interview

Answer: b

Explanation: A **structured interview** (also known as a **standardized interview** or a **researcher-administered survey**) is a quantitative research method commonly employed in survey research. The aim of this approach is to ensure that each interview is presented with exactly the same questions in the same order. This ensures that answers can be reliably aggregated and that comparisons can be made with confidence between sample sub groups or between different survey periods.

51. Which of the selection steps is the most critical?

- a. Physical examination
- b. Selection decision
- c. Reference and background checks
- d. Employment interviews

Answer: b

52. _____ refers to the learning opportunities designed to help employees grow.

- a. Training
- b. Development
- c. Education
- d. All of the above

Answer: b

53. How does training and development offer competitive advantage to an organisation?

- a. Removing performance deficiencies
- b. Deficiency is caused by a lack of ability
- c. Individuals have the aptitude and motivation to learn
- d. None of the above

Answer: a

54. Which of the following is a benefit of employee training?

- a. Improves morale
- b. Helps people identify with organizational goals
- c. Provides a good climate for learning, growth and co - ordination
- d. None of the above

Answer: b

55. Choose which of the following is a benefit to the individual while receiving training?

- a. Creates an appropriate climate for growth, communication
- b. Aids in increasing productivity and/ or quality of work
- c. Satisfies a personal need of the trainer
- d. None of the above

Answer: c

56. Which of this is a step-in training process?

- a. KSA deficiency
- b. Provide proper feedback
- c. Obstacles in the system
- d. Use of evaluation models

Answer: d

57. Which of the following is a method used in group or organisational training needs assessment?

- a. Consideration of current and projected changes
- b. Rating scales
- c. Interviews
- d. Questionnaires

Answer: a

58. Rearrange the steps in training programme.

- A. What should be the level of training
 - B. What principles of learning
 - C. Who are the trainees?
 - D. What methods and techniques?
 - E. Where to conduct the programme?
 - F. Who are the trainers?
- a. ABCDEF c. CADFBE
b. DECAFB d. CFDABE

Answer: d

59. Which of these is an off - the - job training method?

- a. Television
- b. Job rotation
- c. Orientation training
- d. Coaching

Answer: a

Explanation: Audio-Visual: Providing training by way of using Films, Televisions, Video, and Presentations etc. This method of training has been using successfully in education institutions to train their students in subjects to understand and assimilate easily and help them to remember forever.

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60. Which of these is a hindrance to effective training?

- a. Career planning workshop
- b. Aggregate spending on training is inadequate
- c. Mentoring
- d. Career counselling

Answer: b

Sub Unit – 7: COMPENSATION MANAGEMENT

61. What is the main objective of job evaluation?

- a. Job is rated before the employee is appointed to occupy
- b. It is not compulsory
- c. To define satisfactory wage and salary differentials
- d. None of the above

Answer: c

Explanation: The main objective of job evaluation is to determine relative worth of different jobs in an organization to serve as a basis for developing equitable salary structure.

62. Which of these options is one of the non - analytical methods of job evaluation?

- a. Job - grading method
- b. Point ranking method
- c. Factor comparison method
- d. None of the above

Answer: a

Explanation: Job-grading Method: Under this method, job grades or classes are established by an authorised body or committee appointed for this purpose. A job grade is defined as a group of different jobs of similar difficulty or requiring similar skills to perform them. Job grades are determined on the basis of information derived from job analysis.

63. Which of these is an alternate to job evaluation?

- a. Wage survey
- b. Employee classification
- c. Decision Bank Method
- d. None of the above

Answer: c

64. The _____ refers incentives to variable pay.

- a. National Tribunal
- b. International Labour office
- c. Labour Court
- d. None of the above

Answer: b

65. _____ are variable rewards granted to employees according to variations in their performance.

- a. Remuneration
- b. Perks
- c. Fringe Benefits
- d. Incentives

Answer: d

Explanation: An **incentive** is a contingent motivator. Traditional incentives are extrinsic motivators which reward actions to yield a desired outcome.

66. Which of the below given options is a pre - requisite for an effective incentive system?

- a. Increased need for planning
- b. Co-operation of workers
- c. Management's commitment to the cost and time necessary to administer incentive schemes
- d. All of the above

Answer: d

67. The four categories of incentives are listed by _____.

- a. The International Labour Organisation
- b. The International Labour Office
- c. World Health Organisation
- d. None of the above

Answer: a

Sub Unit – 8: PERFORMANCE APPRAISAL INCLUDING 360 DEGREE PERFORMANCE APPRAISAL

68. _____ is an objective assessment of an individual's performance against well-defined benchmarks.

- a. Performance Appraisal
- b. HR Planning
- c. Information for goal identification
- d. None of the above

Answer: a

Explanation: A performance appraisal is a regular review of an employee's job performance and overall contribution to a company. Also known as an annual review, performance review or evaluation, or employee appraisal, a performance appraisal evaluates an employee's skills, achievements, and growth--or lack thereof.

69. What is linked with performance appraisal?

- a. Job Design
- b. Development
- c. Job analysis
- d. None of the above

Answer: c

Explanation: Job analysis data can help identify and establish a person's performance standards. Job performance measures can be developed and evaluated with an understanding of the assigned duties at the prescribed level of job/task performance.

70. Which of the following is an alternate term used for performance appraisal?

- a. Quality and quantity of output
- b. Job knowledge
- c. Employee assessment
- d. None of the above

Answer: c

71. Which of these is the main purpose of employee assessment?

- a. Making correct decisions
- b. To effect promotions based on competence and performance
- c. Establish job expectations
- d. None of the above

Answer: b

72. How performance appraisal can contribute to a firm's competitive advantage?

- a. Ensures legal compliances
- b. Minimising job dissatisfaction and turnover
- c. Improves performance
- d. All of the above

Answer: d

73. Successful defenders use performance appraisal for identifying _____.

- a. Staffing needs
- b. Job behaviour
- c. Training needs
- d. None of the above

Answer: c

Explanation: Training need is a process that a business goes through in order to determine all the training that needs to be completed in a certain period to allow their team to complete their job as effectively as possible, as well as progress and grow.

74. Which of these is an advantage of the critical incidents methods while performing performance appraisal?

- a. Minimise inventory costs
- b. Negative incidents are generally more noticeable than positive ones
- c. Evaluation is based on actual job behaviour
- d. None of the above

Answer: c

75. What is the full form of "BARS"?

- a. Behaviourally Anchored Rating Scales
- b. Baseline Accounting and Reporting System
- c. Budgeting Accounting and Reporting System
- d. None of the above

Answer: a

76. What do behaviourally anchored scales represent?

- a. The scales are anchored by descriptions of actual job behaviour
- b. Superiors would feel comfortable to give feedback
- c. A range of descriptive statements of behaviour varying from the least to the most effective
- d. None of the above

Answer: c

77. Who conducts the field review method?

- a. Peers
- b. Supervisor
- c. Subordinates
- d. Someone from corporate office or the HR department

Answer: d

78. Which performance appraisal methods consumes a lot of time?

- a. Essay method
- b. Rating Scales
- c. Critical incident
- d. Tests And Observation

Answer: a

Explanation: The essay method, sometimes known as the “free-form method,” is a performance review system where a superior creates a written review of the employee’s performance.

These essays are meant to describe and record an employee’s strengths and weaknesses in job performance, identifying problem areas and creating a plan of action to remedy them.

79. Which method is used for evaluating the performance of executives or supervisory positions?

- a. Psychological Appraisals
- b. Assessment Centres
- c. Behaviourally Anchored Rating Scales
- d. 360 degree feedback

Answer: b

Explanation: Assessment centres are places where individuals are judged on their future ability to perform a particular role. Assessment centres used to be more common for senior positions, but with the increasing number of applicants per role, they have become more common across the board.

80. What does the 360 degree feedback assess?

- a. Communication Skills
- b. Behavioural Aspect
- c. Team - building skills
- d. Soft skills

Answer: d

81. Which of these options are the activities that constitute the core of performance management?

- a. Performance interview
- b. Archiving performance data
- c. Use of appraisal data
- d. All of the above

Answer: d

82. Which of these is an issue while designing an appraisal programme?

- a. Quality
- b. What methods of appraisal are to be used
- c. Quantity
- d. Cost of effectiveness

Answer: b

Explanation: With the right performance appraisal method, organizations can enhance employee performance within the organization. A good employee performance review method can make the whole experience effective and rewarding.

83. When appraisals are made by superiors, peers, subordinates and clients then it is called ____.

- a. 360 degree feedback
- b. 180 degree feedback
- c. Self - appraisal
- d. None of the above

Answer: a

Explanation: 360 degree feedback is a multidimensional performance appraisal method that evaluates an employee using feedback collected from the employee's circle of influence namely managers, peers, customers, and direct reports. This method will not only eliminate bias in performance reviews but also offer a clear understanding of an individual's competence.

84. Which company first developed the 360 degree system of appraisal?

- a. Wipro in 1990
- b. Godrej Soaps in 1991
- c. General Electric, US in 1992
- d. None of the above

Answer: c

85. Which of these is one of the seven criteria for assessing performance?

- a. Community service
- b. Interpersonal contact
- c. Need for supervision
- d. All of the above

Answer: d

86. Which is the simplest and most popular technique for appraising employee performance?

- a. Rating Scales
- b. Critical Incident
- c. Cost accounting
- d. BARS

Answer: a

87. Which of these is a major weakness of the forced distribution method?

- a. Assumes that employee performance levels always conform to a normal distribution
- b. Work is reliable
- c. The error of central tendency
- d. None of the above

Answer: a

Sub Unit – 9: COLLECTIVE BARGAINING AND WORKERS' PARTICIPATION IN MANAGEMENT

88. Collective bargaining is a procedure regulated by agreements between their –

- a. Bargaining agents and employers
- b. Employees and employees
- c. Employers and employers
- d. Labour officer and Trade unions

Ans: a

Explanation: **Collective bargaining** is a process of negotiation between employers and a group of employees aimed at agreements to regulate working salaries, working conditions, benefits, and other aspects of workers' compensation and rights for workers. The interests of the employees are commonly presented by representatives of a trade union to which the employees belong.

89. What is the role of the trade-union in collective bargaining?

- a. To protect jobs and real earnings
- b. Better conditions of work life for workers
- c. Fighting against any possible, exploitations
- d. All above

Ans: d

90. The objectives of workers' participation in management do not ordinarily include

- (a) promotion of collective bargaining
- (b) promotion of industrial harmony
- (c) promotion of industrial democracy
- (d) promotion of productivity

Ans: a

91. The word workers participation in management means –

- a. Sharing the decision making powers
- b. Sharing the decision making with lower results of the employees
- c. Sharing the day to day working with higher ranks of persons
- d. Sharing the financial decision making powers with representative of workers

Ans: b

Explanation: Workers' Participation in Management (WPM) refers to participation of non-managerial employees in the decision-making process of the organization. Workers' participation is also known as 'labour participation' or 'employee participation' in management.

92. Which kind of workers participation makes the workers as shareholders of the company?

- a. Participation at Board Level
- b. Participation through ownership
- c. Participation through complete control
- d. Participation through work councils

Ans: b

Explanation: Workers may become more involved in industries by making them shareholders of the company. The management may promote the scheme by allowing the workers to make payments in installments. It may also advance loans or even give financial assistance to such workers to enable them to buy equity shares. Instances of workers holding shares in their companies are many.

Sub Unit – 10: PERSONALITY

93. Which of the following statements is true

- 1. In small quantities, stress is good
- 2. Too much stress is harmful
- 3. All stress is bad
- 4. Only '1' & '2' are right

Answer: 4

94. Stress management is about learning

1. How to avoid the pressures of life
2. How to develop skills that would enhance our body's adjustment when we are subjected to the pressures of life
3. Both '1' & '2' are true
4. None of the above

Answer: 2

95. Which of the following are the basic sources of stress

1. The Environment
2. Social Stressors
3. Physiological
4. Thoughts
5. All of the above

Answer: 5

96. Which of the following statements is true

1. Positive stress is short-term
2. Negative stress can be short or long-term
3. Negative stress can lead to mental as well as physical problems
4. Negative stress is perceived within our coping abilities
5. All of the above
6. All except '4' is true

Answer: 4

97. Sensation is to _____ as perception is to _____.

- a. vision, olfaction
- b. conscious, unconscious
- c. awareness, interpretation
- d. taste, vision

Answer: c

98. The emotional part of an attitude is called _____.

- a. Affective component
- b. Attitude
- c. Behavioural component
- d. All of the above

Answer: a

99. Primary emotions are to the _____ pathway as secondary emotions are to the _____ pathway.

- a. mild, intense
- b. hard, soft
- c. fast, slow
- d. pleasant, unpleasant

Answer: a

Sub Unit–11: ORGANIZATIONAL CULTURE: ORGANIZATIONAL DEVELOPMENT AND ORGANIZATIONAL CHANGE

100. What is the term for organisational development through a formally designed organisational structure?

- a. Organic
- b. Mechanistic
- c. Formal
- d. Structured

Answer: b

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UNIT: 7

BANKING AND FINANCIAL INSTITUTIONS

MODEL QUESTIONS

1. Match the following:

- | | |
|----------------------|---------|
| a. Credit Control | 1. MCA |
| b. Corporate Control | 2. SEBI |
| c. IPO Control | 3. IRDA |
| d. ULIP Control | 4. RBI |

Codes:

- | | a | b | c | d |
|-----|---|---|---|---|
| (A) | 4 | 2 | 3 | 1 |
| (B) | 4 | 1 | 2 | 3 |
| (C) | 2 | 3 | 4 | 1 |
| (D) | 4 | 1 | 3 | 2 |

Answer: (B)

Explanation: Credit control is one of the important function of RBI, SEBI is apex authority of control of capital market where from the companies collect their long term fund and Initial Public Offering (IPO) is also control by SEBI, all the companies are control by Ministry of Corporate Affairs (MCA) and Unit –Linked Insurance Plan (ULIP) is control by IRDA.

2. Which one among the following has not started Commercial Banking?

- (A) SIDBI
- (B) IDBI
- (C) ICICI
- (D) UTI

Answer: (A)

Explanation: SIDBI has not entered in commercial banking service.

3. What is OTP in credit card transactions?

- (A) Odd Transaction Password
- (B) Owner's Trading Password
- (C) One Time Password
- (D) One Time Pin code

Answer: (C)

Explanation: OTP- One Time Password

4. The powers of Controller of Capital Issues of India is now shifted to

- (A) Ministry of Finance
- (B) SEBI
- (C) AMFI
- (D) Ministry of Corporate Affairs

Answer: (B)

Explanation: Controller of Capital Issues was the regulatory authority before SEBI came into existence; it derived authority from the Capital Issues (Control) Act, 1947.

5. The success of E-banking depends upon: www.netugc.com

- i. Multi-layer Security System
- ii. Risk and Surveillance Management
- iii. Updated Flawless Softwares
- iv. Stringent Legal Frame-work

- (A) i and ii
- (B) i, ii, and iii
- (C) ii, iii, and iv
- (D) i, ii, iii and iv

Answer: (B)

6. 'BOLT' system in the Indian Securities market is related to

- (A) National Stock Exchange
- (B) Bombay Stock Exchange
- (C) Over the Counter Exchange of India
- (D) Multi Commodity Stock Exchange

Answer: (B)

Explanation: The on-line trading system of BSE is known as BOLT (BSE's On-line Trading System), while that of NSE is known as NEAT (National Exchange for Automated Trading).

7. Which one of the following is not a money market instrument?

- (A) Commercial paper
- (B) Participatory certificates
- (C) Warrants
- (D) Treasury Bills

Answer: (C)

Explanation: Money market instruments are Treasury bill, Commercial Paper, Certificate of Deposit, Money Market Mutual Fund, Call Money, Bill of Exchange. So, warrant is not the money market instrument.

8. Match the items of List – I with items of List – II.

List – I

- a. Selective credit control
- b. Encourage credit for desirable use
- c. Quantitative credit control
- d. Bank Rate

List – II

- 1. Consumer Credit Regulation
- 2. Cash Reserve Ratio
- 3. Variation in Margin
- 4. Re-discounting Rate

Codes:

| | a | b | c | d |
|-----|---|---|---|---|
| (A) | 4 | 2 | 3 | 1 |
| (B) | 3 | 1 | 2 | 4 |
| (C) | 1 | 3 | 2 | 4 |
| (D) | 2 | 1 | 3 | 4 |

Answer: (B)

Explanation: Cash reserve ratio comes under the quantitative credit control instrument, Bank rate is the rate at which the RBI re-discount the bill of commercial banks, main objective of consumer credit regulation is desirable use of credit and selective credit control is control of credit only in specific area not in whole and it can be done by making variation in margin requirement.

9. Assertion (A): Use of paper money is replaced by plastic money. The future will see the electronic money clearance through satellite networking.

Reason (R): RBI is encouraging e-banking.

Codes:

- (A) (A) is false, but (R) is true.
- (B) (A) is true, but (R) is false.
- (C) Both (A) and (R) are false.
- (D) Both (A) and (R) are true.

Answer: (D)

10. The Securities and Exchange Board of India was not entrusted with the function of

- (A) Investor Protection.
- (B) Ensuring Fair practices by companies.
- (C) Promotion of efficient services by brokers.
- (D) Improving the earnings of equity holders.

Answer: (D)

Explanation:

Functions of SEBI

- Protecting general investors from various dishonest practices of the company officials,
- Registering and regulating the working of stock brokers and sub-brokers,
- Registering and regulating the working of mutual funds,
- Registering and regulating the working of share transfer agent, bankers to an issue, merchant bankers, etc.
- Regulating the overall business of the stock exchanges,
- Prohibiting insider trading in securities,
- Promoting investors' education,
- Arranging of training of intermediaries
- Publishing information useful for all market participants
- Levying various fees and other charges for carrying out its work.(7.5.3)

11. Read the following events:

- (i) Allowing convertibility of rupee at the market rate in the current account
- (ii) Nationalisation of general insurance business
- (iii) Establishment of IDBI
- (iv) Nationalisation of life insurance business
- (v) Capital adequacy norms for commercial banks

Arrange the events in the ascending order of their occurrence:

- (A) (iv), (iii), (ii), (i), (v)
- (B) (v), (iv), (iii), (ii), (i)
- (C) (i), (ii), (iii), (v), (iv)
- (D) (i), (v), (ii), (iv), (iii)

Answer: (A)

Explanation:

IDBI-1964

Nationalisation of life insurance business-1956

Nationalisation of general insurance business-1973

Capital adequacy norms for commercial banks-1993

Allowing convertibility of rupee at the market rate in the current account-1992

12. In India, the Commercial Banks are given license of operation by

- (A) The Government of India
- (B) The Ministry of Finance
- (C) Reserve Bank of India
- (D) Banking Companies Regulation Act, 1949

Answer: (C)

Explanation: In India, RBI gives license to Commercial Banks for starting its operation. RBI is the regulating body in banking sector.

13. There are two lists of items, match the items of List – I with items of List – II:

List – I

List – II

I. Reserve Bank of India

1. NPA

II. EXIM Bank

2. Facilitating Small Scale Industries

III. SIDBI

3. Credit Control

IV. Capital Adequacy

4. Export/Import Financing

Codes:

| | I | II | III | IV |
|-----|---|----|-----|----|
| (A) | 1 | 2 | 3 | 4 |
| (B) | 4 | 3 | 2 | 1 |
| (C) | 2 | 3 | 4 | 1 |
| (D) | 3 | 4 | 2 | 1 |

Answers: (D)

Explanation: RBI is involved with credit control operation of commercial banks, EXIM banks is related with export/import financing, SIDBI is related with facilitating small scale industries and Capital adequacy is related with NPA of banks.

14. One of the items is not related with e-banking:

- (A) Demand Draft
- (B) SPNS
- (C) ECS
- (D) ATM

Answers: (A)

Explanation: SPNS –Shared Payment Network System, ECS- Electronic Clearing System, ATM-Automated Teller Machine all these three is related with e- banking but demand draft is associated with traditional banking system and it is a method of transferring money.

15. Who is the fiscal agent and advisor to Government in monetary and financial matters?

- (A) NABARD
- (B) SBI
- (C) RBI
- (D) None of the above

Answer: (C)

Explanation: As banker to the government the Reserve Bank manages the banking needs of the government. It has to maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

16. Call money rate is applicable for a very short period to

- (A) Inter bank advances
- (B) Bank to Reserve Bank advances
- (C) Reserve Bank to Bank advances
- (D) Commercial Banks to Industrial Banks advances

Answer: (A)

Explanation: Call Money is the short term finance raised by commercial banks as inter-bank transactions with an aim to maintain the cash reserve ratio. It is a market where money is borrowed or lent on demand and has a maturity ranging between one day and two weeks. It is also known as Inter-bank call money market.

17. Reserve Bank of India controls the activities of some of the following banks in India:

- (i) Commercial Banks
- (ii) Cooperative Banks
- (iii) Foreign Banks
- (iv) Rural Banks

Codes:

- (A) (i), (ii) and (iii)
- (B) (i), (iii) and (iv)
- (C) (ii), (iii) and (iv)
- (D) (i), (ii), (iii) and (iv)

Answer: (D)

Explanation: The **Reserve Bank of India (RBI)** is India's central bank; it is the regulator of the entire banking system in India.

18. Transaction of Internet Banking excludes

- (A) Withdrawal of cash anywhere in India.
- (B) Statement of account for a specific period.
- (C) Transfer of funds from one account to another account.
- (D) Balance enquiry.

Answer: (A)

19. Which among the following is not a category of Non-Performing Assets?

- (A) Substandard Assets
- (B) Doubtful Debts
- (C) Loss Assets
- (D) Devaluated Assets

Answer: (D)

Explanation: Banks are required to classify NPAs into three categories based on the period of outstanding of the loans standard assets, Substandard, Doubtful and Loss assets.

20. When a loan will be NPA?

- (A) Interest and/or loan instalments overdue for more than 90 days.
- (B) Account is out of order for more than 90 days in case of overdraft/cash credit.
- (C) Bill remains overdue for more than 90 days.
- (D) All of the above.

Answer: (D)

Explanation:

As per RBI guidelines a Non-Performing Asset (NPA) is a loan or an advance where:

- (i) Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan.
- (ii) The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC) for more than 90 days.
- (iii) The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted.
- (iv) For agricultural crop loans, the instalment of principal or interest thereon remains overdue for two crop seasons for short-duration crops.
- (v) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops under agricultural loan.

21. Which of the following fee-based services are provided by IDBI?

- (i) Credit syndication
- (ii) Corporate trustee services
- (iii) Custodial services
- (iv) Foreign services

Identify the correct code:

Codes:

- (A) (i), (ii) and (iv)
- (B) (i) and (ii)
- (C) (ii), (iii) and (iv)
- (D) (iii) and (iv)

Answer: (A)

Explanation:

Except custodial services all other fee based services are given by IDBI.

22. SIDBI provides financial assistance in the following forms:

- (i) Bills financing
- (ii) Project financing
- (iii) Re-finance assistance
- (iv) Resource support to institutions

Which of the following sequence is correct?

- (A) (i), (iii), (iv) and (ii)
- (B) (ii), (iv), (i) and (iii)
- (C) (iii), (i), (iv) and (ii)
- (D) (iv), (i), (iii) and (ii)

Answer: (C)

Explanation:

Functions

- SIDBI refinances loans that are extended by financial institutions to small scale industries
- It helps the small financial institution by bill financing
- Helps in expanding marketing channels for the products of Small Scale Industries
- It also finance in project under taken by small scale industries.
- It offers services like factoring, leasing etc. to small-scale sector
- Promotes employment opportunities across small scale industries in semi-urban areas
- Initiates steps towards technology up gradations
- Enables credit flow as working capital or as term loans to Small Scale Industries.

23. Match the items of List – I with List – II :

| List – I | List – II |
|---|-----------|
| a. RBI Nationalization | i. 1964 |
| b. Imperial Bank Nationalization | ii. 1949 |
| c. Nationalization of 14 Commercial Banks | iii. 1955 |
| d. Establishment of IDBI | iv. 1969 |

Identify the correct combination :

Codes :

| | a | b | c | d |
|-----|-----|-----|-----|----|
| (A) | i | ii | iii | iv |
| (B) | ii | iii | I | iv |
| (C) | iii | ii | iv | i |
| (D) | ii | iii | iv | i |

Answer: D

24. As per the RBI Act, 1934, the following functions are described as the functions of a Central Bank:

(i) Banking functions (ii) Advisory functions (iii) Supervisory functions (iv) Promotional functions

Identify the correct combination:

- (A) (i), (iii) and (iv)
- (B) (i), (ii) and (iv)
- (C) (ii), (iii) and (iv)
- (D) Only (i) and (iii)

Answer: A

Explanation:

There are mainly three functions of RBI

- a) Traditional or Banking function
- b) Development or promotional function
- c) Supervisory function

25. Phishing is an attempt to acquire :

- (A) Loan from unauthorized firms
- (B) Sensitive information such as username, password, etc.
- (C) Personal information from banks
- (D) None of the above

Answer: B

Explanation:

Phishing is the fraudulent attempt to obtain sensitive information or data, such as usernames, passwords and credit card details by disguising oneself as a trustworthy entity in an electronic communication.

26. What is Call Money?

- (A) Money borrowed or lent for a day or overnight.
- (B) Money borrowed for more than one day but upto 3 days.
- (C) Money borrowed for more than one day but upto 7 days.
- (D) Money borrowed for more than one day but upto 14 days.

Answer: A

Explanation:

Call money is defined as the money borrowed or lent for a single day and repaid on the next working day.

27. The Regulatory Authority of Regional Rural Banks is

- (A) NABARD
- (B) Central Government
- (C) State Government
- (D) Sponsor Bank

Answer: A

Explanation:

Regional Rural Banks are regulated by RBI and supervised by National Bank for Agriculture and Rural Development (NABARD).

28. Which of the following committees is intended to review the working of the monetary system in India?

- (A) Narasimham Committee
- (B) Tandon Committee
- (C) Sukhamoy Chakravarty Committee
- (D) Deheja Committee

Answer: C

Explanation:

The **Sukhamoy Chakravarty Committee** was formed in December 1982 under the chairmanship of Prof. Sukhamoy Chakravarty to assess the functioning of the Indian monetary system. Its goal was to improve monetary regulation; a feat that was hoped would enable price stability.

29. Match the items of List-I with those in List-II and select the correct answer.

List-I

List-II

- | | |
|-----------------------------|---|
| (a) Bank Rate Policy | 1. Involving the shortening of the currency of bills eligible for rediscount. |
| (b) Credit Rationing | 2. Involving the Purchase and sale of securities in the open market. |
| (c) Variable Reserve System | 3. Involving the alteration of discount rate. |
| (d) Open Market Operations | 4. Involving the variation of the minimum reserves |

Codes :

- | | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | 1 | 4 | 2 | 3 |
| (B) | 2 | 1 | 3 | 4 |
| (C) | 4 | 2 | 1 | 3 |
| (D) | 3 | 1 | 4 | 2 |

Answer: D

The **Credit Rationing** is a measure undertaken by the central bank to limit or deny the supply of credit based on the investor's creditworthiness and an increased loan demand.

Open market operation refers to buying and selling of government securities in open market in order to expand or contract the amount of money in the banking system.

Bank rate is the rate at which the Central bank lends money to the commercial banks for their liquidity requirements. Bank rate is also called discount rate. Variable Reserve System Involves variation of the minimum reserves to control the money supply in the market.

30. Find out the odd one out of the following:

- (A) State Bank of India
- (B) Reserve Bank of India
- (C) Union Bank of India
- (D) Central Bank of India

Answer: B

Explanation:

Reserve Bank of India is the regulating authority of banking system in India. It is the central bank of India. All others are commercial banks.

31. SIDBI was set up in _____ as a wholly owned subsidiary of _____

- (A) 1985 – EXIM
- (B) 1969 – RRBS
- (C) 1975 – IFCI
- (D) 1990 – IDBI

Answer: D

Explanation:

In order to promote small scale industries in the country, a special Act was passed in Parliament in April 1990 for starting of Small Industries Development Bank of India. SIDBI is a wholly owned subsidiary of IDBI.

32. Money laundering means-

- (A) Hiding of income source mainly to avoid income tax
- (B) Money acquired through criminal process
- (C) Process of conversion of money obtained illegally to appear to have originated from legitimate sources.
- (D) Money acquired from undisclosed foreign process

Answer: C

33. Main objectives of CRR and SLR are to ensure:

- (i) Liquidity position of Bank
 - (ii) Financial position of Bank.
 - (iii) Profit position of Bank
- (A) Only (i) is correct.
 - (B) Only (ii) is correct.
 - (C) Only (iii) is correct.
 - (D) All are correct.

Answer: A

Explanation:

Main objective of CRR and SLR is to ensure the liquidity of the bank.

34. NABARD has taken over the entire functions of

- (A) ARDC
- (B) ACD of RBI
- (C) RPCD of RBI
- (D) All of the above

Answer: D

35. Which one of the following is not an instrument of credit control in the banking system?

- (A) Open market operations
- (B) Moral suasion
- (C) Cash Reserve Ratio
- (D) Tax rates

Answer: D

Explanation:

Important tools of credit control are CRR, SLR, Bank Rate, Open market operation, Moral suasion, Credit Rationing, ceiling on credit, margin requirement.

36. Match the following with their year of establishment :

- | | |
|------------|------------|
| (a) IDBI | (i) 1982 |
| (b) IFCI | (ii) 1964 |
| (c) NABARD | (iii) 1948 |
| (d) ICICI | (iv) 1955 |

Codes :

- (a) (b) (c) (d)
- (A) (iii) (i) (iv) (ii)
 - (B) (iv) (ii) (i) (iii)
 - (C) (ii) (iii) (i) (iv)
 - (D) (i) (iii) (iv) (ii)

Answer: C

37. Which of the following is not a function of a Rural Bank?

- (A) To accept deposits
- (B) To waive loans
- (C) To grant advances
- (D) To supply inputs to farmers

Answer: D

Explanation:

To supply inputs to farmers is not a banking activity.

38. The features of the Commercial Paper are

- (A) It is an unsecured money market instrument issued in the form of promissory note.
- (B) The highly rated corporate borrowers can raise short term funds through this instrument.
- (C) It is an additional instrument to the investing community.
- (D) All of the above

Answer: D

Explanation:

Commercial paper, also called CP, is a short term debt instrument issued by companies to raise funds generally for a time period up to one year. It is an unsecured money market instrument issued in the form of a promissory note and was introduced in India in the year 1990. Companies having high rating can issue commercial paper to fulfil their short term sources of funds.

39. Merchant Banking in India is governed by-

- (A) RBI
- (B) IRDA
- (C) SEBI
- (D) Ministry of Finance

Answer: C

40. SEBI is

- (A) Regulatory Authority
- (B) Statutory Authority
- (C) Both (A) and (B)
- (D) None of these

Answer: C

Explanation:

SEBI is both a regulatory as well as a statutory body. It has been established under SEBI act (statute) from which it derives the power to regulate the activities of all the listed companies in India.

41. The Commercial Banks in India are governed by
(A) Reserve Bank of India Act, 1934
(B) Indian Companies' Act, 1956
(C) Indian Banking Regulation Act, 1949
(D) Securities and Exchange Board of India Act, 1992

Answer: A

Explanation:

The banking system in India is regulated by the Reserve Bank of India (RBI) Act, 1934.

42. Many Banks have adopted /launched 'Core Banking Solutions' (CBS). Core Banking Solution is-
- (A) A marketing strategy adopted by the banks
(B) A new type of ATM useful for rural population
(C) A delivery channel for quick and fast delivery
(D) A new product launched to help senior citizens only as they are able to visit branches/ATMs frequently

Answer: C

43. Match the following with the years of establishment/nationalisation.

List – I

- (a) Reserve Bank of India
(b) Nationalisation of 14 Major Commercial Banks
(c) Nationalisation of 6 Commercial Banks
(d) Regional Rural Banks

List – II

- i. 1975
ii. 1935
iii. 1969
iv. 1980

Codes :

- | | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | i | iii | ii | iv |
| (B) | iii | ii | iv | i |
| (C) | iv | iii | i | ii |
| (D) | ii | iii | iv | i |

Answer: D

44. Capital adequacy norm helps to Banks
- (i) For strengthening capital base of Banks.
 - (ii) For sanctioning more loans.
- (A) Both (i) and (ii) are correct.
(B) Both (i) and (ii) are incorrect.
(C) (i) is correct, but (ii) is incorrect.
(D) (i) is incorrect, but (ii) is correct.

Answer: C

Explanation:

Capital adequacy reflects the Overall soundness of the individual bank and risk exposure of the individual bank. Along with the profitability and safety, banks also give importance to solvency.

45. Which one of the following is the main objective of Unit Trust of India?
- (A) To mobilize the savings of high income groups.
 - (B) To mobilize the savings of low and high income groups.
 - (C) To mobilize the savings of corporates.
 - (D) To mobilize the savings of low and middle income groups.

Answer: D

Explanation:

Objectives of UTI:

- (i) To encourage and pool the savings of the middle and low income groups.
- (ii) To enable them to share the benefits and prosperity of the industrial development in the country.

46. Who among the following is not a speculator in Stock Exchange?
- A) Broker
 - B) Bull
 - C) Bear
 - D) Stag

Answer: A

Explanation:

A bull market is one that is moving in a positive direction over time. An investor is described as a "bull" if he is confident in the overall stock market, a sector or a company. A bear market occurs when the direction is negative over time. An investor is described as a "bear" if he believes the overall stock market, a sector or a company will decline in the near-term or long-term. Unlike bull and bear, "stag" is a type of strategy rather than a market perspective. A primary meaning is that a stag investors buys shares prior to public trading and then attempts to sell them immediately at a profit. In stock market jargon, a broker is an individual or a firm that executes 'buy' and 'sell' orders for an investor for a fee or commission.

47. Which of the following is not the function of the RBI?

- (a) Banker's Bank
- (b) Controller of credit
- (c) Custodian of Foreign Exchange Reserve
- (d) Allotting money directly to farmers for agricultural development

Answer: D

Explanation:

Functions of RBI

- Formulating and implementing the national monetary policy.
- Maintaining price stability across all sectors while also keeping the objective of growth.
- Set parameters for banks and financial operations within which banking and financial systems function.
- Protect investors' interest and provide economic and cost-effective banking to the public.
- Oversees the Foreign Exchange Management Act, 1999.
- Facilitate external trade and development of foreign exchange market in India.
- Issue of Notes
- Promotes and performs promotional functions to support national banking and financial objectives.
- Banker to Government:
- **Banker's Bank**
- **Controller of the Credit**

48. Which of the following sentence is not correct?

- (a) RBI was nationalized on January 1, 1935.
- (b) RBI's head quarter is in Delhi
- (c) RBI is the custodian of the foreign currency in India
- (d) RBI has 4 Deputy Governors

Answer: B

Explanation:

The Central Office of the RBI was established in Calcutta (now Kolkata) but was moved to Bombay (now Mumbai) in 1937.

49. Which of the following is true about the functions performed by RBI?

- (i) It is the Bank of Issue
- (ii) It acts as banker to the Government
- (iii) It is the banker of other banks
- (iv) It regulates the flow of credit

- a. Both (i) and (ii)
- b. Both (iii) and (iv)
- c. All the above
- d. None of the above

Answer: C

Explanation:

Functions of RBI

- Formulating and implementing the national monetary policy.
- Maintaining price stability across all sectors while also keeping the objective of growth.
- Set parameters for banks and financial operations within which banking and financial systems function.
- Protect investors' interest and provide economic and cost-effective banking to the public.
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- Facilitate external trade and development of foreign exchange market in India.
- Issue of Notes
- Promotes and performs promotional functions to support national banking and financial objectives.
- Banker to Government:
- **Banker's Bank**
- **Controller of the Credit**

50. How many Deputy Governors are there in RBI?

- a. 2
- b. 4
- c. 5
- d. 10

Answer: B

Explanation:

The general superintendence and direction of the RBI is entrusted with the 21-member central board of directors: the governor; four deputy governors; two finance ministry representatives; ten government-nominated directors to represent important elements of India's economy; and four directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and the New Delhi.

51. Which of the following is the rate at which the RBI lends money to commercial banks in the event of any shortfall of funds?

- a. Benchmark Prime Lending Rate
- b. Annual Percentage Rate
- c. Bank Rate
- d. Repo Rate

Answer: D

Explanation:

Repo rate helps commercial banks to acquire funds from RBI by selling securities and also agreeing to repurchase at a later date.

52. When financial institutions and banks undertake activities related to banking like investment, issue of debit and credit card etc then it is known as _____.

- a. Internet banking
- b. Universal banking
- c. Virtual Banking
- d. Wholesale banking

Answer: B

Explanation:

Universal Banking refers to broad-based and comprehensive banking activities. A universal bank participates in many kinds of banking activities and is a commercial bank and an investment bank as well as providing other financial service such as insurance.

53. 'Financial Inclusion' is the latest powerful tool adopted by Reserve Bank of India, to fulfil the basic objective of -

- a. Uplifting of population lying Below Poverty Line
- b. Connecting every Indian to the Country's Banking System
- c. Ensuring Bank finance to all landless agriculturists
- d. Inclusion of latest technology in financial sector of the country.

Answer: B

Explanation:

Financial Inclusion is described as the method of offering banking and financial solutions and services to every individual in the society without any form of discrimination.

54. "Basel Committee on Banking Supervision" is also known as _____.

- a. Bank for International Settlements Committee
- b. Banking Regulation Committee
- c. Financial Stability Board
- d. Global Financial System

Answer: A

55. 'Subprime lending' is a term applied to the loans made to _____.

- a. Those borrowers who do not have a good credit history
- b. Those borrowers who have a good credit history
- c. Those borrowers who do not have a good debit history
- d. Those borrowers who have a good debit history

Answer: A

Explanation:

Subprime lending (also referred to as near-prime, subpar, non-prime, and second-chance lending) is the provision of loans to people who may have difficulty maintaining the repayment schedule

56. Which was the first bank to introduce Internet banking?

- a. Canara Bank
- b. ICICI Bank
- c. Punjab National Bank
- d. State Bank of India

Answer: B

Explanation:

Bengal Bank, established in 1784, was the first bank to introduce cheque system. **ICICI Bank** was the first Indian bank to provide internet banking facility. First bank to introduce ATM in India was **HSBC** in 1987, Mumbai. **Central Bank of India** was the first public bank to introduce Credit card.

57. Which was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system?

- a. BSE
- b. NSE
- c. PSE
- d. CSE

Answer: B

Explanation:

The NSE was established in 1992 as the first dematerialized electronic exchange in the country. NSE was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered easy trading facility to the investors spread across the length and breadth of the country.

58. SIDBI related statements are given. Pick the wrong statement.

- a. SIDBI means Small Industries Development Bank of India
- b. It was established on April 2, 1990.
- c. It is the principal financial institution for the promotion, financing and development of industry in the small-scale sector.
- d. Its head office is in Hyderabad.

Answer: D

Explanation:

Small Industries Development Bank of India (SIDBI) is an independent financial institution aimed to aid the growth and development of micro, small and medium-scale enterprises (MSMEs). Its head office is situated in Lucknow.

59. Who has allowed banks to tie up with insurers, to sell three products each from life, non-life and standalone health insurance segment?

- a. RBI
- b. SIDBI
- c. IRDAI
- d. NABARD

Answer: C

Explanation:

IRDAI allowed banks to tie up with insurers, to sell three products each from life, non-life and standalone health insurance segment.

60. Referring to various types of banking, 'Mixed banking' is _____?

- a. Banking system that combines commercial and investment banking
- b. Banking system that combines virtual and branch banking
- c. Banking system that combines retail and wholesale banking
- d. Banking system that combines offline and relationship banking

Answer: A

Explanation:

The Mixed Banking is the combination of Deposit Banking and Investment Banking. The German Banking system presents the best example of mixed banking in the world.

61. When financial institutions and banks undertake, activities related to banking like investment, issue of debit and credit card etc., then it is known as _____.

- a. Internet Banking
- b. Universal Banking
- c. Virtual Banking
- d. Wholesale Banking

Answer: B

Explanation:

Universal Banking refers to broad-based and comprehensive banking activities. A universal bank participates in many kinds of banking activities and is a commercial bank and an investment bank as well as providing other financial service such as insurance.

62. What are NEFT and RTGS about?

- a. Cheque truncation process
- b. Electronic fund transfer from bank to bank
- c. Electronic payment products within a bank
- d. Various deposit products

Answer: B

Explanation:

Following are the popular methods of electronic Fund Transfer

Real Time Gross Settlement (RTGS)

National Electronic Funds Transfer (NEFT)

Immediate Payment Service (IMPS)

SWIFT (The Society for Worldwide Interbank Financial Telecommunication)

63. Which of the following is true about the functions performed by RBI -

- (i) It is the Bank of Issue
- (ii) It acts as banker to the Government
- (iii) It is the banker of other banks
- (iv) It regulates the flow of credit
- (a) Both (i) and (ii)
- (b) Both (iii) and (iv)
- (c) All the Above
- (d) None of the above

Answer: C

Explanation:

Functions of RBI

- Formulating and implementing the national monetary policy.
- Maintaining price stability across all sectors while also keeping the objective of growth.
- Set parameters for banks and financial operations within which banking and financial systems function.
- Protect investors' interest and provide economic and cost-effective banking to the public.
- Oversees the Foreign Exchange Management Act, 1999.
- Facilitate external trade and development of foreign exchange market in India.
- Issue of Notes
- Promotes and performs promotional functions to support national banking and financial objectives.
- Banker to Government:
- **Banker's Bank**
- **Controller of the Credit**

64. When was general insurance business nationalised?

- a) 1938
- b) 1971
- c) 1973
- d) 1993

Answer: C

Explanation:

The General Insurance Business (Nationalisation) Act, 1972 (GIBNA) that followed paved the way for the Government to take over ownership of these businesses. Accordingly, GIC was incorporated on 22 November 1972 as a private company under Companies Act, 1956 in Bombay and received its Certificate for Commencement of Business on 1 January 1973.

65. Which of the following best describes the Securities and Exchange Board of India?

- A) S E B I is the regulator for the capital markets.
- B) S E B I protects the interest of investors.
- C) S E B I is for ethical practices.
- D) All of the above.

Answer: D

Explanation:

Functions of SEBI

- Protecting general investors from various dishonest practices of the company officials,
- Registering and regulating the working of stock brokers and sub-brokers,
- Registering and regulating the working of mutual funds,
- Registering and regulating the working of share transfer agent, bankers to an issue, merchant bankers, etc.
- Regulating the overall business of the stock exchanges,
- Prohibiting insider trading in securities,
- Promoting investors' education,
- Arranging of training of intermediaries
- Publishing information useful for all market participants
- Levying various fees and other charges for carrying out its work.

66. For what kind of transactions are Demat accounts necessary?

- (a) For having mobile banking facilities
- (b) For taking retail loans from banks
- (c) For trading in shares of companies
- (d) For non-resident account

Answer: C

Explanation:

A Demat Account is a bit like a bank account for your share certificates and other securities that are held in an electronic format. Demat Account is short for dematerialisation account and makes the process of holding investments like shares, bonds, government securities, Mutual Funds, Insurance and ETFs easier, doing away the hassles of physical handling and maintenance of paper shares and related documents. For trading of shares of a company Demat account is necessary along with share trading account.

67. SEBI has recently launched a portal to enable investors to post their complains and for its follow up. What is the name of his portal?

- (a) Aadhar
- (b) MORE
- (c) SCORES
- (d) Happy Times

Answer: C

Explanation:

There will be occasions when you have a complaint against a listed company/ intermediary registered with SEBI. In the event of such complaint you should first approach the concerned company/ intermediary against whom you have a complaint. However, you may not be satisfied with their response. Therefore, you should know whom you should turn to, to get your complaint redressed. SEBI takes up complaints related to issue and transfer of securities and non-payment of dividend with listed companies. In addition, SEBI also takes up complaints against the various intermediaries registered with it and related issues. SCORES facilitates you to lodge your complaint online with SEBI and subsequently view its status.

68. Basel –II norms are associated with which of the following aspects of the banking industry?

- a) Risk Management
- b) Manpower Planning
- c) Corporate Governance
- d) Retirement benefits for the employees

Answer: A

Explanation:

The Basel II Accord was published initially in June 2004 and was intended to amend international banking standards that controlled how much capital banks were required to hold to guard against the financial and operational risks banks face. These regulations aimed to ensure that the more significant the risk a bank is exposed to, the greater the amount of capital the bank needs to hold to safeguard its solvency and overall economic stability.

69. Consider the List I and List-II and choose correct code given below

List-I

List-II

- a) SWIFT
- b) NEFT
- c) BASEL I Accord
- d) BASEL II Accord

- 1. 2005
- 2. 1988
- 3. 1973
- 4. 2004

Codes:

| | a) | b) | c) | d) |
|----|----|----|----|----|
| A) | 1 | 2 | 3 | 4 |
| B) | 3 | 2 | 1 | 4 |
| C) | 3 | 1 | 2 | 4 |
| D) | 4 | 3 | 2 | 1 |

Answer: C

Explanation:

Basel II Accord-2004

Basel I Accord-1988

Basel-III-2009

SWIFT-1973

NEFT-2005

70. Nationalisation of banks aimed at all of the following except

- a) Removal of control by a few
- b) Provision of control by a few
- c) Provision of adequate credit for agriculture, small industry and export unit.
- d) Encouragement of a new class of entrepreneur

Answer: A

Explanation:

Objectives of Nationalisation of Banks

- To mobilise savings of the people to the maximum possible extent and utilise them for productive purposes;
- To meet the legitimate credit needs of private sector industry and trade (big or small);
- To counter the menace of money lenders;
- To bring about development and financial inclusion in rural areas to benefit farmers and other small scale/cottage industries;
- To increase the reach of bank towards rural areas i.e. to counter the urban bias;
- To make the banking industry tilt towards social purpose instead of profit making org. as was the trend then;
- To check (stop) the use of the bank credit for speculative and other unproductive purposes.

71. Which of the rate is not determined by RBI?

- a) CRR
- b) PLR
- c) Bank rate
- d) SLR

Answer: B

Explanation:

The Repo rate determines the prime lending rate. Currently, all commercial banks have the authority to set their own benchmark prime lending rate (BPLR) with the sanction of their respective boards. The prime lending rate is crucial for borrowers, as the PLR directly affects the lending rates for a home loan.

72. In order to encourage investment in the country, the RBI may

- a) Reduce CRR
- b) Increase CRR
- c) sell securities in the open market
- d) increase bank rate

Answer: A

Explanation:

With the reduction of CRR, funds available for distribution as loan among the customer of commercial banks increases. These excess funds encourage investment in the economy.

73. Match the following with the years of establishment/nationalisation.

List – I

- (a) CRR
- (b) Fiscal Policy
- (c) Monetary Policy
- (d) RRR

List – II

- i. Maximum Expected rate
- ii. Government of India
- iii. RBI
- iv. Rate of interest

Codes :

- | | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | iii | ii | i | iv |
| (B) | i | iii | ii | iv |
| (C) | ii | iv | i | iii |
| (D) | iv | i | ii | iii |

Answer: A

Explanation:

Cash Reserve Ratio (CRR) is determined by RBI, Fiscal Policy is a policy of Govt. of India relating to collection of revenue (Taxes) and Expenditure to influence a country's economy, RRR (Required Rate of Return) is the minimum annual percentage earned by an investment that would encourage an individual or companies to invest money into a particular security or project. Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, unemployment, consumption, growth and liquidity.

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74. Match the following with the years of establishment/nationalisation.

List – I

- (a) Monetary policy
- (b) Bank rate
- (c) Taxation policy
- (d) Repo rate

Codes :

| | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | i | iii | ii | iv |
| (B) | iii | i | ii | iv |
| (C) | i | ii | iv | iii |
| (D) | iv | i | ii | iii |

List – II

- i. Instrument for regulation of money and credit
- ii. Instrument of fiscal policy
- iii. Instrument of monetary policy
- iv. Quantitative instrument of monetary policy

Answer: A

Explanation:

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, unemployment, consumption, growth and liquidity. Fiscal Policy is a policy of Govt. of India relating to collection of revenue (Taxes) and Expenditure to influence a country's economy, Repo rate is a Quantitative instrument of monetary policy.

75. Which of the following statement is incorrect?

- a) Doubtful advance is an advance which remains NPA for more than 12 months.
- b) The account remain out of order for a period of more than 100 days, in respect of an overdraft/ cash credit (OD/CC)
- c) Net NPA is having provisions for bad debts.
- d) Net NPAs= Gross NPAs- Provisions for NPAs

Answer: B

Explanation:

The account remains 'out of order' in respect of an Overdraft/Cash Credit (OD/CC) for more than 90 days.

76. Which of the following statement is incorrect?

- 1) NPAs= [(Gross or Net NPAs)/Total Advances]*100
 - 2) Net NPAs= Gross NPAs- Provisions for NPAs
 - 3) $CAR = \frac{\text{Tier two capital} + \text{Tier three capital}}{\text{Risk weighted assets}}$
 - 4) Capital fund has two tiers- Tier I or core capital and Tier II
- Codes:
- a) Only 4
 - b) Only 1
 - c) 1, 2 and 4
 - d) Only 3

Answer: D

Explanation:

$CAR = (\text{Tier two capital} + \text{Tier Two capital}) / (\text{Risk weighted assets})$

77. ATM was first introduced in India by Hongkong and Singapore Banking Corporation (HSBC) in the year

- a) 1984
- b) 1989
- c) 1982
- d) 1987

Answer: D

Explanation:

Bengal Bank, established in 1784, was the first bank to introduce cheque system. **ICICI Bank** was the first Indian bank to provide internet banking facility. First bank to introduce ATM in India was **HSBC** in 1987, Mumbai. **Central Bank of India** was the first public bank to introduce Credit card.

78. Real Time Gross Settlement (RTGS) is managed by

- a) State Bank of India
- b) Reserve Bank of India
- c) Indian Bank's Association
- d) Government of India

Answer: B

Explanation:

In India RTGS systems are managed and run by the central banks (RBI).

79. In stock exchange operations, when the speculator buys the right to sell a certain number of shares on an agreed amount at a specified time it is known as

- a) No option
- b) Put option
- c) Call option
- d) Double option

Answer: B

Explanation:

Put option is a derivative contract between two parties. The buyer of the put option earns a right (it is not an obligation) to exercise his option to sell a particular asset to the put option seller for a stipulated period of time.

80. Who issues treasury bills?

- a) Reserve Bank of India as the agent of the Central Government
- b) Any Government Department of state and Central
- c) Any Commercial bank
- d) All of the above

Answer: A

Explanation:

It is a short term money market instrument having a maturity period of less than 364 days or 1 year and issued by the RBI on behalf of the Government to fulfil the short term requirement of the Government.

81. Arrange the following institutions in chronology order:

- 1) SEBI (Securities Exchange Board of India)
- 2) Board for Industrial and Financial Reconstruction (BIFR)
- 3) EXIM Bank
- 4) National Stock Exchange (NSE)

Codes

- a) 4,1,2,3
- b) 3,1,2,4
- c) 3,2,1,4
- d) 4,2,1,3

Answer: C

Explanation:

SEBI (Securities Exchange Board of India)-1992 (Apr.)

Board for Industrial and Financial Reconstruction (BIFR)-1987

EXIM Bank-1982

National Stock Exchange (NSE)-1992 (Nov)

82. The first development financial institution of India was

- a) IDBI
- b) IFCI
- c) ICICI
- d) UTI

Answer: B

Explanation:

Industrial Finance Corporation (IFCI) is the first industrial development bank set up by the Government of India in July 1948.

83. Arrange the following banks in order, in which they were established.

1. IDBI 2. IFCI 3. SIDBI 4. IIBI

Codes:

- a) 2,1,3,4
- b) 2,1,4,3
- c) 1,2,3,4
- d) 1,2,4,3

Answer: B

Explanation:

IDBI-1964

IFCI-1948

SIDBI-1990

IIBI-1971



84. One of the functions of IDBI is to assist other financial institutions by---- of loans granted for exports.

- a) planning
- b) Refinancing
- c) Both (a) and (b)
- d) None of the above

Answer: B

Explanation:

IDBI was established to provide refinance for export credit granted by banks and financial institutions.

85. The first Mutual Fund Scheme in India was introduced by

- a) Government of India
- b) Reserve Bank of India
- c) Unit Trust of India
- d) State Bank of India

Answer: C

Explanation:

The first introduction of a mutual fund in India occurred in 1963, when the Govt. of India launched Unit Trust of India.

86.----- scheme are seen as riskier than----- scheme

- a) Debt, equity
- b) Equity, debt
- c) Both (a) and (b)
- d) None of the above

Answer: B

Explanation:

In case of stock fund entire subscriptions are invested by the institution into debenture and bond. In this mutual fund investor has to face low risk and get a chance of lower return.

In case of stock fund entire subscription are invested by the institution into equity shares and stocks. In this mutual fund investor has to face more risk and get a chance of higher return.

87. The investment management activity of a mutual fund is managed by the

- a) Sponsors
- b) AMC
- c) Custodian
- d) RTA

Answer: B

Explanation:

Asset management refers to the management of people's assets. The term also applies to dealing with other organizations' or companies' investments. Assets include either intangible or intangible assets. **Asset Management Company** is a company that takes the financial assets of a person, company or another asset management company (generally this will be high net worth individuals) and use the assets to invest in companies that use those as an operational investment, financial investment or any other investment in order to grow the investment; post which, the returns will be returned to the actual investor and a small amount of the returns are held back as a profit with the asset management company.

88. Assertion (A): All the mutual funds must get registered with SEBI.

Reason (R): Securities Exchange Board of India (SEBI) is the regulatory body for all the mutual funds.

Codes:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
- (C) (A) is true, but, (R) is false.
- (D) (R) is true but (A) is false.

Answer: A

Explanation:

Mutual fund, although regulated by the SEBI, are not insured against losses. It is possible that investors could even lose their entire investment in some extreme cases.

89. Assertion (A): Screen based trading system cuts down on time, cost and risk error as well as on the chances of fraud.

Reason (R): Screen based trading system electronically matches the buyer and seller in an order driven system.

Codes:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A)
- (B) Both (A) and (R) are true but (R) is not the correct explanation of (A)
- (C) (A) is true, but, (R) is false.
- (D) (R) is true but (A) is false.

Answer: A

Explanation:

Screen Based Trading System (SBTS) electronically matches the buyer and seller in an order-driven system or finds the customer the best price available in a quote-driven system, and hence cuts down on time, cost and risk of error as well as on the chances of fraud.

90. Match the following with the years of establishment/nationalisation.

List – I

- (a) Certificate of deposits
- (b) Debentures
- (c) Treasury Bills
- (d) Commercial Papers

List – II

- 1. 91 days, 182 days and 364 days
- 2. 3 to 5 months
- 3. 1 day to 270 days
- 4. Longer period in years.

Codes :

| | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | 2 | 4 | 1 | 3 |
| (B) | 2 | 4 | 3 | 1 |
| (C) | 4 | 3 | 1 | 2 |
| (D) | 3 | 4 | 2 | 1 |

Answer: B

Explanation:

Debenture is a long term source of finance having maturity more than 1 year, Treasury Bills having a maturity period of 91 days, 182 days and 364 days, Commercial paper having a maturity period of 1 day to 270 days and Certificate of deposit having a maturity period of 3 to 5 months.

91. Match the following with the years of establishment/nationalisation.

List – I

- (a) RBI
- (b) ICICI
- (c) IFCI
- (d) IDBI

List – II

- 1. To provide medium and long-term credit to industrial concerns
- 2. Banker bank
- 3. To provide term finance to industry
- 4. Underwriting institution

Codes :

| | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | 2 | 3 | 4 | 1 |
| (B) | 2 | 1 | 4 | 3 |
| (C) | 1 | 2 | 4 | 3 |
| (D) | 4 | 3 | 2 | 1 |

Answer: B

Explanation:

RBI is the bankers of all banks in India, ICICI provide medium and long-term credit to industrial concerns, IFCI is an Underwriting institution and IDBI provide term finance to industry.

92. Match the following with the years of establishment/nationalisation.

List – I

(a) Open- ended mutual fund scheme

(b) Close ended mutual fund scheme

(c) Growth Fund scheme

(d) Off- shore mutual fund

Codes :

| | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | 2 | 1 | 4 | 3 |
| (B) | 3 | 4 | 1 | 2 |
| (C) | 2 | 4 | 1 | 3 |
| (D) | 3 | 1 | 4 | 2 |

List – II

1. It offers capital appreciation of the underlying investment

2. It is a fund accepted and liquidated on a continuous basis by a mutual fund manager.

3. It is also known as regional or country fund

4. No exit possible till the closure of the scheme

Answer: C

Explanation:

Open- ended mutual fund scheme- It is a fund accepted and liquidated on a continuous basis by a mutual fund manager. Close ended mutual fund scheme- No exit possible till the closure of the scheme, Growth Fund scheme- It offers capital appreciation of the underlying investment and Off- shore mutual fund- It is also known as regional or country fund.

93. Inadequate insurance coverage held by a policy holder is known as

a) Insurance

b) Underinsurance

c) Over insurance

d) Max insurance

Answer: B

Explanation:

Underinsurance refers to inadequate insurance coverage held by a policyholder. In the event of a claim, underinsurance may result in economic losses for the policyholder. If a policy is insufficient, the claim would exceed the maximum amount that can be paid out by the insurance policy.

94. Largest life insurance company in India is

a) The New India Assurance Company Ltd.

b) Life Insurance Corporation of India (LIC)

c) United India Insurance Company Ltd.

d) National Insurance Company Ltd.

Answer: B

95. A type of insurance that combines protection with investment plan is called

- a) Whole life
- b) Limited pay
- c) Universal
- d) Endowment

Answer: C

Explanation:

Universal life (UL) insurance is permanent life insurance with an investment savings element and low premiums that are similar to those of term life insurance.

96. Identify quantitative credit control measures-

- I. Bank rate
- II. Credit Rationing
- III. Open market operation
- IV. Cash Reserve Ratio
- V. Selective Credit Control
- VI. Statutory Liquidity ratio

- a) I, II, III and IV
- b) II, III, IV and V
- c) I, III, IV and VI
- d) I, II, III, IV, V and VI

Answer: C

Explanation:

Credit rationing and Selective credit control methods are the qualitative credit control mechanism.

97. Most firms shift their risks by

- a) Buying an insurance policy
- b) Establishing a self-insurance fund
- c) Establishing a safety programme
- d) Stopping the questionable activity

Answer: A

98. Match the following with the years of establishment/nationalisation.

List – I

- (a) Life insurance
- (b) Simple insurance
- (c) Fire Insurance
- (d) Marine Insurance

List – II

- 1. Used to avoid fire related risks
- 2. Harvest insurance, aircraft insurance etc.
- 3. It is an insurance that is done for the protection of life
- 4. Insurance to be done to avoid marine risks.

Codes :

| | (a) | (b) | (c) | (d) |
|-----|-----|-----|-----|-----|
| (A) | 1 | 2 | 3 | 4 |
| (B) | 3 | 2 | 1 | 4 |
| (C) | 2 | 1 | 4 | 3 |
| (D) | 4 | 3 | 2 | 1 |

Answer: B

Explanation:

Life insurance is a contract that offers financial compensation in case of death or disability. Some life insurance policies even offer financial compensation after retirement or a certain period of time. Life insurance, thus, helps you secure your family's financial security even in your absence.

Fire insurance pays or compensates for the damages caused to your property or goods due to fire. It covers the replacement, reconstruction or repair expenses of the insured property as well as the surrounding structures. Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination. Simple insurance related to Harvest insurance, aircraft insurance etc.

99. Tier II capital should not be more than----- of Tier I capital.

- a) 150%
- b) 100%
- c) 50%
- d) None of these

Answer: B

100. RBI replaces Base Rate System by-

- a) MCLR
- b) BPL
- c) BPO
- d) PLR

Answer: A

Explanation:

MCLR (Marginal Cost of funds based Lending Rate) replaced the earlier base rate system to determine the lending rates for commercial banks. RBI implemented MCLR on 1 April 2016 to determine rates of interests for loans.



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UNIT – 8

MARKETING MANAGEMENT

Sub Unit – 1: MARKETING

1. The following is not a type of Marketing Concept

- A. The production concept
- B. The selling concept
- C. The societal marketing concept
- D. The Supplier Concept

Answer: d

2. The term marketing refers to:

- A. Advertising, Sales Promotion, Publicity and Public Relational activities
- B. A new product needs ideas, Developments, concepts and improvements.
- C. Sales Planning, Strategy and Implementation
- D. A philosophy that stresses customer value and satisfaction.

Answer: d

Explanation: Marketing refers to activities a company undertakes to promote the buying or selling of a product or service. Marketing includes advertising, selling, and delivering products to consumers or other businesses. Some marketing is done by affiliates on behalf of a company.

3. Marketing is a process which aims at -----.

- A. Production
- B. Profit-making.
- C. The satisfaction of customer needs
- D. Selling products

Answer: c

Explanation: Marketing process includes ways in which value can be created for the customers to satisfy their requirements. It is an endless series of actions and reactions between the customers and the companies making attempt to create value for and satisfy the needs of customers.

In marketing process, the situation is examined to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are taken, plan is executed, and results are monitored.

4. Marketing management is _____.

- A. developing marketing strategies to move the company forward
- B. managing the marketing process
- C. monitoring the profitability of the company's products and services
- D. the art and science of choosing target markets and getting, keeping, and growing customers through creating, delivering, and communicating superior customer value

Answer: d

Explanation: **Marketing management** is the organizational discipline which focuses on the practical application of marketing orientation, techniques and methods inside enterprises and organizations and on the management of a firm's marketing resources and activities.

5. The most formal definition of marketing is -----.

- A. An organizational function and a set of process for creating, communicating and delivering, value to customers and that benefit the organization.
- B. Improving the quality of life for consumers
- C. Meeting needs profitability
- D. Marketing is an organizational function includes the 4Ps

Answer: a

6. Marketers often use the term _____ to cover various groupings of customers.

- A. buying power
- B. demographic segment
- C. market
- D. people

Answer: c

Explanation: A market is a place where two parties can gather to facilitate the exchange of goods and services. The parties involved are usually buyers and sellers. The market may be physical like a retail outlet, where people meet face-to-face, or virtual like an online market, where there is no direct physical contact between buyers and sellers.

7. Today, marketing must be understood in a new sense that can be characterized as:

- A. "Get there first with the most."
- B. "Management of youth demand."
- C. "Satisfying customer needs."
- D. "Telling and selling."

Answer: c

8. The term 'marketing mix' describes:

- A. A composite analysis of all environmental factors inside and outside the firm.
- B. A series of business decisions that aid in selling a product.
- C. The relationship between a firm's marketing strengths and its business weaknesses.
- D. A blending of strategic elements to satisfy specific target markets.

Answer: d

Explanation: A marketing mix includes multiple areas of focus as part of a comprehensive marketing plan. The term often refers to a common classification that began as the four Ps: product, price, placement, and promotion.

Effective marketing touches on a broad range of areas as opposed to fixating on one message. Doing so helps reach a wider audience, and by keeping the four Ps in mind, marketing professionals are better able to maintain focus on the things that really matter. Focusing on a marketing mix helps organizations make strategic decisions when launching new products or revising existing products.

9. Which of the following marketing mix activity is most closely associated with newsletters, catalogues and invitations to organization-sponsored events?

- A. Pricing
- B. Promotion
- C. Distribution
- D. Product

Answer: b

10. Which one of the following sets represents 4C's of the marketing mix?

- A. Customer solution, cost, convenience, communication
- B. Customer, cost, convenience, comfort
- C. Convenience, communication, coverage, cost
- D. Cost, coverage, communication, consultancy

Answer: a

11. A firm has decided to localize its products and services to meet local market demands. Which one of the following approaches is a good approach for this segmentation?

- A. Geographic
- B. Demographic
- C. Psychographics
- D. Behavioural

Answer: a

Explanation: Geographic segmentation divides a target market by location so marketers can better serve customers in a particular area. This type of market segmentation is based on the geographic units themselves (countries, states, cities, etc.), but also on various geographic factors, such as climate, cultural preferences, populations, and more.

12. In effective target market, marketers should focus on:

- a) Market segmentation
- b) Market Targeting
- c) Market positioning
- d) All of the above

Answer: d

13. Which marketing strategy must interact efficiently with consumer to establish superior value during service period?

- (1) Service marketing mix
- (2) Extended marketing mix
- (3) Traditional marketing mix
- (4) Service profit chain

Answer: 3

Explanation: The traditional marketing mix, built around the 4Ps — product, price, place and promotion — arguably discounts the breadth and complexity of current-day marketing. Therefore, two Ps were added to the mix — process and people — which respond to crucial changes in customer service, e-commerce and social media.



Sub Unit – 2: PRODUCT DECISIONS

14. The _____ concept holds that consumers will favour products that offer the most in quality, performance and innovative features.

- A. Marketing
- B. Production
- C. Product
- D. Selling

Answer: c

Explanation: Product concept is the understanding of the dynamics of the product in order to showcase the best qualities and maximum features of the product. Marketers spend a lot of time and research in order to target their attended audience. Marketers will look into a product concept before marketing a product towards their customers.

While the "product concept" is based upon the idea that customer prefers products that have the most quality, performance, and features, some customers prefer a product that is simpler and easier to use.

15. _____ are products bought by individuals and organizations for further processing or for use in conducting a business.

- A. Consumer products
- B. Speciality products
- C. Industrial products
- D. Personal Products

Answer: c

16. After concept testing, a firm would engage in which stage for developing and marketing a new product?

- A. Marketing strategy development
- B. Business analysis
- C. Product development
- D. Test marketing

Answer: a

Explanation: Marketing strategies give your small business a direction toward effective promotion. Marketing strategies differ from one business to the next and should be customized to suit the needs of the particular company. The development of a marketing strategy involves the isolation of a target market segment, a set of clear-cut goals, a fair amount of consumer research, and the implementation of initiatives aimed at getting the word out.

17. If the company's sales are slow down, and profits level off or decline. At which stage the company has reached?

- A. Introduction
- B. Decline
- C. Growth
- D. Maturity

Answer: b

Explanation: The term product life cycle refers to the length of time a product is introduced to consumers into the market until it's removed from the shelves. The life cycle of a product is broken into four stages—introduction, growth, maturity, and decline.

Decline: A product takes on increased competition as other companies emulate its success—sometimes with enhancements or lower prices. The product may lose market share and begin its decline.

18. Which one of the following is NOT the stage that customers go through in the process of adopting a new product?

- A. Awareness
- B. Interest
- C. Evaluation
- D. Culture

Answer: d

19. New product development starts with which one of the following steps of new product development?

- A. Idea screening
- B. Idea generation
- C. Test marketing
- D. Concept testing

Answer: b

Explanation: Idea generation is described as the process of creating, developing and communicating abstract, concrete or visual ideas.

It's the front end part of the idea management funnel and it focuses on coming up with possible solutions to perceived or actual problems and opportunities.

20. Which is the ingredient of product mix?

- (1) Advertising
- (2) Public relation
- (3) Personal selling
- (4) All of the above

Answer: 4

21. What are product mix dimensions?

- (1) Number of different product lines in the mix.
- (2) Total number of items carried in each product line.
- (3) Number of versions offered of each product in a product line.
- (4) All of the above

Answer: 4

22. Adding new product lines, Lengthen existing product lines, Add more versions of each product, pursue more product line consistency comes under which type of product mix decision.

- (1) Product mix dimensions
- (2) Increasing business
- (3) Trends
- (4) All of the above

Answer: 2

Sub Unit – 3: PRICING DECISIONS

23. _____ concerns with pricing policies for late entrants to a market.

- (1) Marketing skills
- (2) Marketing research
- (3) Market penetration
- (4) Market skimming

Answer: 3

Explanation: Market penetration is a measure of how much a product or service is being used by customers compared to the total estimated market for that product or service. Market penetration can also be used in developing strategies employed to increase the market share of a particular product or service.

24. Setting a low initial price to attract a large number of buyers quickly and cover the large market share is known as

- (1) Skimming pricing
- (2) Going-rate pricing
- (3) Value based pricing
- (4) Penetration pricing

Answer: 4

Explanation: Penetration pricing is a marketing strategy used by businesses to attract customers to a new product or service by offering a lower price during its initial offering. The lower price helps a new product or service penetrate the market and attract customers away from competitors. Market penetration pricing relies on the strategy of using low prices initially to make a wide number of customers aware of a new product.

25. _____ is the price that a buyer carries in their mind and refers to it when they look at the given product

- (1) Psychological pricing
- (2) Segmented pricing
- (3) Product-line pricing
- (4) Reference pricing

Answer: 4

Explanation: Reference pricing, in simple terms, is known as that price which users compare with the price of a competitor's product or the previously advertised price. Here the price of the product, which is more expensive, becomes the reference price for your product.

26. When different version of products are priced differently but in accordance to difference in their value then it is a form of

- (1) Psychological pricing
- (2) Segmented pricing
- (3) Product-line pricing
- (4) Product-form pricing

Answer: 4

Explanation: Product-form Pricing: Different prices charged for different variants of the same product. Example, the price of the same type of a car may vary because of different color and add-on features.

27. _____ is the straight reduction in price on purchase during a stated period of time.

- (1) Discount
- (2) Allowance
- (3) Sale
- (4) All of the above

Answer: 1

28. The practice of charging different price with different customers is called

- (1) Price discrimination
- (2) Discount
- (3) Allowance
- (4) Two-part pricing

Answer: 1

Explanation: Price discrimination is a selling strategy that charges customers different prices for the same product or service based on what the seller thinks they can get the customer to agree to. In pure price discrimination, the seller charges each customer the maximum price he or she will pay. In more common forms of price discrimination, the seller places customers in groups based on certain attributes and charges each group a different price.

29. What do we call the practice of charging different prices depending on individual consumer and situation?

- (1) Break –even pricing
- (2) Cost-PLUS pricing
- (3) Value based pricing
- (4) Dynamic pricing

Answer: 4

Explanation: **Dynamic pricing**, also referred to as **surge pricing**, **demand pricing**, or **time-based pricing** is a pricing strategy in which businesses set flexible prices for products or services based on current market demands. Businesses are able to change prices based on algorithms that take into account competitor pricing, supply and demand, and other external factors in the market. Dynamic pricing is a common practice in several industries such as hospitality, tourism, entertainment, retail, electricity, and public transport.

30. The price reduction to buyers who purchase in large volume is known as

- (1) Discount
- (2) Two-part pricing
- (3) Quantity discount
- (4) Value based pricing

Answer: 3

31. Pricing that starts with an ideal selling price is known as

- (1) Value based pricing
- (2) Going-rater pricing
- (3) Skimming pricing
- (4) Target pricing

Answer: 4

Explanation: Target pricing is the process of estimating a competitive price in the marketplace and applying a firm's standard profit margin to that price in order to arrive at the maximum cost that a new product can have. A design team then tries to create a product with the requisite features within the pre-set cost constraint. If the team cannot complete the product within the cost constraint, the project is terminated. By taking this approach, a firm can assure itself of earning a reasonable profit across its product line, without being burdened by any low-profitability products. However, if the standard profit margin is set too high, it may not be possible to develop very many products within the cost constraint.

32. A company differentiates the marketing offer to make it worth the higher price. Other companies de-emphasize price, and use other marketing mix tools to create

- (1) Non-price position
- (2) Price position
- (3) Less price position
- (4) More price position

Answer: 1

Sub Unit – 4: PROMOTION DECISIONS

33. In order to promote a product continuous approaching of prospect consumer is being done, this is called

- (1) Lead
- (2) Target group
- (3) Call
- (4) Telemarketing

Answer: 3

34. Promotion has to be given a little more importance in marketing services due to the

- (1) Hybrid offer
- (2) Tangible and intangible characteristics
- (3) Pure service
- (4) Tangible good with accompanying services

Answer: 2

35. Which is the form of the element of promotion mix among?

- (1) Personal selling
- (2) Advertising
- (3) Sales promotion
- (4) All of the above

Answer: 4

36. A producer announced that on purchase of a particular product another product will be provided at less rate is

- (1) Discount
- (2) Quantity gift
- (3) Cheap bargain
- (4) Promotion mix

Answer: 3

37. _____ is irregular in nature.

- (1) Promotion mix
- (2) Sales promotion
- (3) Trade promotion
- (4) Discount coupon

Answer: 2

Explanation: Sales promotion is one of the elements of the promotional mix. The primary elements in the promotional mix are advertising, personal selling, direct marketing and publicity/public relations. Sales promotion uses both media and non-media marketing communications for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability.

38. The long term sales effect of the sales promotion could be

- (1) Positive
- (2) Negative
- (3) Neutral
- (4) All of the above

Answer: 4

39. Providing offer to refund a part of the purchase price of any product to consumer is known as

- (1) Coupon
- (2) Price pack
- (3) Rebate/cash refund offer
- (4) Premium

Answer: 3

Explanation: A sales promotion tool in which consumers are offered a cash incentive to buy; a small part of the purchase price is refunded when a coupon attached to the product is returned to the manufacturer; also referred to as a Cash-Back Offer or Cash Rebate.

40. Evaluation, length of promotion, size of incentive, deciding how to promote and distribute the promotion program itself is the part of

- (1) Tools
- (2) Objectives
- (3) Developing sales promotion program
- (4) Rapid growth of sales promotion

Answer: 3

41. A small amount of product is offered to the customer for trial is called

- (1) Product combination
- (2) Sample
- (3) Coupon
- (4) Rebate

Answer: 2

Explanation: A sample refers to a smaller, manageable version of a larger group. It is a subset containing the characteristics of a larger population.

42. The change of customer behavior as result of promotion is measured by

- (1) Narrowcasting
- (2) Customer audit
- (3) Volume allowance
- (4) Media planning

Answer: 2

43. A certificate that gives buyer a kind of saving when they purchase any specified item is called

- (1) Coupon
- (2) Price pack
- (3) Rebate/cash refund offer
- (4) Premium

Answer: 1

Explanation: In marketing, a **coupon** is a ticket or document that can be redeemed for a financial discount or rebate when purchasing a product.

Customarily, coupons are issued by manufacturers of consumer packaged goods or by retailers, to be used in retail stores as a part of sales promotions. They are often widely distributed through mail, coupon envelopes, magazines, newspapers, the Internet (social media, email newsletter), directly from the retailer, and mobile devices such as cell phones.

44. When customer is a getting some gift items with the product they purchase is known as

- (1) Price pack
- (2) Product combination
- (3) Quantity gift
- (4) Lucky draw

Answer: 2

45. A manufacture provide sales promotion to a wholesaler is

- (1) Cooperative advertising
- (2) Sales promotion
- (3) Dealer promotion
- (4) Trade promotion

Answer: 4

Explanation: **Trade Promotion** refers to marketing activities that are executed in retail between these two partners. Trade Promotion is a marketing technique aimed at increasing demand for products in retail stores based on special pricing, display fixtures, demonstrations, value-added bonuses, no-obligation gifts, and more.

46. Which concept supplements the work of middlemen?

- (1) Cooperative advertising
- (2) Sales promotion
- (3) Dealer promotion
- (4) Trade promotion

Answer: 2

Explanation: Sales promotion is one of the elements of the promotional mix. The primary elements in the promotional mix are advertising, personal selling, direct marketing and publicity/public relations. Sales promotion uses both media and non-media marketing communications for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability.

47. If product is related to warranty then price is related to

- (1) Retail outlets
- (2) Advertisements
- (3) Discounts
- (4) attractiveness

Answer: 3

48. Building and maintaining relation with government officials to influence legislation and regulation is a part of

- (1) Direct marketing
- (2) Indirect marketing
- (3) Loyalty schemes
- (4) Public relation

Answer: 4

Explanation: Public Relation (PR) is the practice of deliberately managing the release and spread of information between an individual or an organization (such as a business, government agency, or a nonprofit organization) and the public. Public relations (PR) and publicity differ in that PR is controlled internally, whereas publicity is not controlled and contributed by external parties. Public relations may include an organization or individual gaining exposure to their audiences using topics of public interest and news items that do not require direct payment.

49. The party who get advantages through sales promotion is

- (1) Retailer
- (2) Manufacturer
- (3) Wholesaler
- (4) Both 2 and 3

Answer: 4

50. Sales promotion is very important for any product, especially for newly launched and designed product. How it affect the product?

- (1) Affects the quality of product
- (2) Affects the quantity of product
- (3) Affects the image of product
- (4) Affects the price of product

Answer: 3

51. Providing reduced price than the marked price by the producer directly on the package or sometimes called cents-off deals is known as

- (1) Coupon
- (2) Price pack
- (3) Rebate/cash refund offer
- (4) Premium

Answer: 2

Explanation: Price Packs: a type of sales promotion in which consumers are offered a reduction in the regular price of a product; the amount of the reduction is usually marked, or 'flagged', prominently on the label or package; also called a 'cents-off' deal.

52. _____ is an element of “Sales Promotion” includes distribution of free samples, organizing trade fair, exhibition, offers, discount coupon etc.

- (1) Marketing mix
- (2) Promotion mix
- (3) Product mix
- (4) Price mix

Answer: 2

Explanation: In marketing, the **promotional mix** describes a blend of promotional variables chosen by marketers to help a firm reach its goals. It has been identified as a subset of the marketing mix. It is believed that there is an optimal way of allocating budgets for the different elements within the promotional mix to achieve best marketing results, and the challenge for marketers is to find the right mix of them.

53. _____ is the purpose of public relation activities to create good image of the company in the mind of the people.

- (1) Not to create immediate demand
- (2) Create immediate demand
- (3) Maintaining immediate demand
- (4) Start production for immediate demand

Answer: 1

54. On- pack coupons are the e.g. of

- (1) Trade promotion
- (2) Sales promotion
- (3) Money based sales promotion
- (4) Fulfilment cost

Answer: 3

55. Increasing short term sales, getting retailers to carry new products and advertise more, reinforce brand position are _____ of Sales promotion.

- (1) Tools
- (2) Developing programs
- (3) Overviews
- (4) Objectives

Answer: 4

56. When customers are getting offer for the product with fewer prices than the listed price is called

- (1) Refund
- (2) Discount
- (3) Lucky draw
- (4) Quantity gift

Answer: 2

Explanation: Selling goods or services for less than their regular or list price.

57. The cost handling in campaign and financing the offers is known as

- (1) Promotion cost
- (2) Communication cost
- (3) Fulfilment cost
- (4) Marketing cost

Answer: 3

58. A display in retail outlet is called

- (1) Money based sales
- (2) Self-liquidating promotion
- (3) Direct marketing
- (4) Point of sale

Answer: 4

Explanation: Point of sale (POS), a critical piece of a point of purchase, refers to the place where a customer executes the payment for goods or services and where sales taxes may become payable. It can be in a physical store, where POS terminals and systems are used to process card payments or a virtual sales point such as a computer or mobile electronic device.

59. Which type of promotional tool is nonpublic, immediate, interactive and customized?

- (1) Indirect marketing
- (2) Direct marketing
- (3) Viral marketing
- (4) E-commerce

Answer: 2

Explanation: **Direct marketing** is a form of communicating an offer, where organizations communicate directly to a pre-selected customer and supply a method for a direct response. Among practitioners, it is also known as direct response marketing. By contrast, advertising is of a mass-message nature.

Text with Technology

60. Scratching card and getting gift or some offer immediately is called

- (1) Lucky draw
- (2) Instant draw and assigned gift
- (3) Quantity gifts
- (4) Rebate

Answer: 2

61. The best promotional tool in any marketing is _____

- (1) Word of mouth publicity
- (2) Self-liquidating promotion
- (3) Push promotion
- (4) Dealers promotion method

Answer: 1

Explanation: Word-of-mouth marketing (WOM marketing) is when a consumer's interest in a company's product or service is reflected in their daily dialogues. Essentially, it is free advertising triggered by customer experiences—and usually, something that goes beyond what they expected.

62. The producer gives a guarantee to the consumer that they will maintain the product in proper condition during a certain period is known as

- (1) Pre sales service
- (2) After sales service
- (3) Marketing method
- (4) Sales promotion

Answer: 2

Explanation: After sales service refers to all the things you do for the care and feeding of your valued customers after they buy your product. This type of customer aftercare is important for any business, but especially for small businesses where every client counts.

63.If a consumer is getting a product with either low cost or any free good with it as an incentive to buy a product is called

- (1) Coupon
- (2) Price pack
- (3) Rebate/cash refund offer
- (4) Premium

Answer: 4

64. The cost of printing, media support, artwork and distribution is known as

- (1) Promotion cost
- (2) Communication cost
- (3) Fulfilment cost
- (4) Marketing cost

Answer: 2

65. Advertising allowance, incentives to salesman, quantity discount are the method of

- (1) Retailer promotion method
- (2) Wholesaler promotion method
- (3) Dealer promotion method
- (4) Jobbers promotion method

Answer: 3

66. To maintain the present customers to buy the product and encourage them to buy more is an objective of

- (1) Promotion mix
- (2) Personal selling
- (3) Public relation
- (4) Sales promotion

Answer: 4

Explanation: Sales promotion is one of the elements of the promotional mix. The primary elements in the promotional mix are advertising, personal selling, direct marketing and publicity/public relations. Sales promotion uses both media and non-media marketing communications for a pre-determined, limited time to increase consumer demand, stimulate market demand or improve product availability.

67. A sales promotion in which a manufacturer provides to a wholesaler is

- (1) Trade promotion
- (2) Sales promotion
- (3) Money based sales promotion
- (4) Fulfilment cost

Answer: 1

Explanation: Trade Promotion refers to marketing activities that are executed in retail between these two partners. Trade Promotion is a marketing technique aimed at increasing demand for products in retail stores based on special pricing, display fixtures, demonstrations, value-added bonuses, no-obligation gifts, and more.

68. Sales contest, conventions, trade shows are

- (1) Word of mouth publicity
- (2) Self-liquidating promotion
- (3) Push promotion
- (4) Business promotion tools

Answer: 4

69. The product is sold and money is received in installments. No interest is charged on these installments is

- (1) Rebate
- (2) Refunds
- (3) Full finance
- (4) Product combination

Answer: 3

70. If price is related to discount then promotion is related to

- (1) Retail outlets
- (2) Advertisements
- (3) Warranty
- (4) Attractiveness

Answer: 2

71. On pack samples are the examples of

- (1) Trade promotion
- (2) Sales promotion
- (3) Manufacturers promotions
- (4) Fulfilment cost

Answer: 3

Sub Unit – 5: DISTRIBUTION DECISIONS

72. While designing the marketing channels, the channels result in ____ service outputs.

- a) 2
- b) 3
- c) 5

Answer: c

73. Perishable products require

- a) Direct marketing channel
- b) Zero-level channel
- c) Both a and b
- d) None of the above

Answer: a

Explanation: Direct marketing channels are a series of marketing methods which can be used to practice direct marketing. A direct marketing channel, as the name suggests, is **always direct** and always puts the organization directly in contact with the customer or targeted prospect.

74. _____ suits best when the producer intends to maintain control on the service level offered by the resellers.

- a) Exclusive distribution
- b) Selective distribution
- c) Intensive distribution
- d) None of the above

Answer: a

75. The established companies prefer

- a) Exclusive distribution
- b) Selective distribution
- c) Intensive distribution
- d) None of the above

Answer: b

Explanation: Selective distribution is a distribution approach where selective and few outlets are chose through which the product is made available to the customers.

A good example for products for which selective distribution is used is cars.

Sub Unit – 6: CONSUMER BEHAVIOUR

76. _____ is the study of how individuals, groups and organizations select, buy, use and dispose off goods, services, ideas or experiences to satisfy their needs and wants.

- a) Consumer behavior
- b) Product cycle
- c) Purchase behavior
- d) None of the above

Answer: a

Explanation: Consumer behaviour is the study of individuals, groups, or organizations and all the activities associated with the purchase, use and disposal of goods and services, and how the consumer's emotions, attitudes and preferences affect buying behaviour. The study of consumer behaviour formally investigates individual qualities such as demographics, personality lifestyles, and behavioural variables (such as usage rates, usage occasion, loyalty, brand advocacy, and willingness to provide referrals), in an attempt to understand people's wants and consumption.

77. A consumer buying behavior is influenced by

- a) Cultural and social factors
- b) Personal factors
- c) Both a and b
- d) None of the above.

Answer: c

78. _____ exerts the broadest and deepest influence on buying behavior.

- a) Social factors
- b) International factors
- c) Personal factors
- d) Cultural factors

Answer: d

79. _____ is the fundamental determinant of a person's wants and behavior.

- a) Culture
- b) Attitude
- c) Value
- d) None of the above

Answer: a

Explanation: **Culture** is an umbrella term which encompasses the social behavior and norms found in human societies, as well as the knowledge, beliefs, arts, laws, customs, capabilities, and habits of the individuals in these groups.

80. Social class is indicated by _____ variables.

- a) Single
- b) Several
- c) None
- d) None of the above

Answer: b

81. A person's _____ are all the groups that have a direct or indirect influence on their attitudes or behavior.

- a) Inspirational groups
- b) Reference groups
- c) Dissociative groups
- d) None of the above

Answer: b

Explanation: A **reference group** includes individuals or groups that influence our opinions, beliefs, attitudes and behaviors. They often serve as our role models and inspiration. Marketers view reference groups as important because they influence how consumers interpret information and make purchasing decisions. Reference groups influence what types of products you will purchase and which brand of product you choose.

Sub Unit – 7: SERVICE MARKETING

82. A _____ is any performance or act one party can provide to another that is essentially intangible and doesn't provides ownership of anything.

- a) Service
- b) Product
- c) Both a & b
- d) None of the above

Answer: a

83. There are in total _____ categories of service mix.

- a) Four
- b) Six
- c) Five
- d) None of the above.

Answer: c

84. The sale of cars wherein the seller also provides services is an example of

- a) Pure tangible good
- b) Tangible good with accompanying services
- c) Hybrid
- d) Major Service with accompanying minor goods and services

Answer: b

85. The service provided at restaurant is an example of:

- a) Pure tangible good
- b) Tangible good with accompanying services
- c) Hybrid
- d) Major Service with accompanying minor goods and services

Answer: c

86. _____ are those qualities that buyers evaluate before purchase.

- a) Search qualities
- b) Experience qualities
- c) Credence qualities
- d) None of the above

Answer: a

Explanation: Search qualities to describe those qualities of a brand that "the consumer can determine by inspection prior to purchase.

87. _____ are those characteristics that buyer evaluate the characteristics after the purchase.

- a) Search qualities
- b) Experience qualities
- c) Credence qualities
- d) None of the above

Answer: b

Explanation: Aspects of a service (such as courtesy, attention, satisfaction) that can be evaluated only after purchase and consumption.

88. _____ are those characteristics that buyer cannot evaluate even after the consumption.

- a) Search qualities
- b) Experience qualities
- c) Credence qualities
- d) None of the above

Answer: c

Explanation: Credence goods are goods whose qualities cannot be ascertained by consumers even after purchase.

Sub Unit – 8: TRENDS IN MARKETING

89. The use of consumer direct channels to reach and deliver services and goods to customers without any help of marketing middlemen is

- a) Direct marketing
- b) Personal selling
- c) Interactive marketing
- d) None of the above

Answer: a

Explanation: Direct marketing is a form of communicating an offer, where organizations communicate directly to a pre-selected customer and supply a method for a direct response. Among practitioners, it is also known as direct response marketing. By contrast, advertising is of a mass-message nature.

90. A direct mail campaign success is judged by

- a) Reading rate
- b) Response rate
- c) Both a and b
- d) None of the above.

Answer: b

91. Direct marketers use the R-F-M formula which stands for

- a) Rate, Frequency, Marketing
- b) Rate, Frequency, Monetary amount
- c) Receny, Frequency, Marketing
- d) Receny, Frequency, Monetary amount

Answer: d

92. _____ do not have time or inclination to behave entirely green. However, they are more likely to purchase green.

- a) Greenback Greens
- b) Sprouts
- c) Grouzers
- d) None of the above

Answer: a

Explanation: A sector of the market defined by the Roper ASW Green Gauge Report as interested in “green” or environmental issues but not always willing to spend extra to support their ideals.

93. Which of the following statement is true about rural marketing?

- a) Rural Marketing consists of marketing of only inputs to the rural market
- b) Rural Marketing consists of marketing of only outputs from the rural markets to other geographical areas
- c) Rural Marketing consists of marketing of inputs to the rural market as well as well as marketing of outputs from the rural markets to other geographical areas
- d) All of above are false

Answer: c

Explanation: Rural marketing is the study of all the activity, agency and policy involved in the procurement of farm inputs by the farmers and the movement of rural products from farmers to consumers

Sub Unit – 9: LOGISTIC MANAGEMENT

94.includes design and administration of systems to control the flow of materials, WIP and finished inventory to support business unit strategy.

- a. Logistics Management
- b. Materials Management
- c. Bill of Materials
- d. None of the above

Answer: a

Explanation: Logistics management is a supply chain management component that is used to meet customer demands through the planning, control and implementation of the effective movement and storage of related information, goods and services from origin to destination. Logistics management helps companies reduce expenses and enhance customer service. The logistics management process begins with raw material accumulation to the final stage of delivering goods to the destination.

95.and physical distribution are the two major operations of logistics.

- a. Supply Chain Management
- b. Materials Management
- c. Logistics Management
- d. None of the above

Answer: b

Explanation: **Materials management** is a core supply chain function and includes supply chain planning and supply chain execution capabilities. Specifically, materials management is the capability firms use to plan total material requirements. The material requirements are communicated to procurement and other functions for sourcing.

96.is the task of buying goods of right quality, in the right quantities, at the right time and at the right price.

- a. Supplying
- b. Purchasing
- c. Scrutinizing
- d. None of the above

Answer: b

97. Which of the following is not a part of Supply chain Management system?

- a. Supplier
- b. Manufacturer
- c. Information Flow
- d. Competitor
- e. Customer

Answer: d

98.is the provision of service to customers before, during and after a purchase.

- a. Customer Service
- b. Product Management
- c. Purchase management
- d. None of the above

Answer: a

Explanation: Customer service is the direct one-on-one interaction between a consumer making a purchase and a representative of the company that is selling it. Most retailers see this direct interaction as a critical factor in ensuring buyer satisfaction and encouraging repeat business.

99. Market logistics planning has _____ steps.

- a) Three
- b) Four
- c) Two
- d) None of the above

Answer: b

100. Integrated Logistics Systems include

- a) Materials Management
- b) Material flow systems
- c) Physical distribution supported by information technology
- d) All of the above

Answer: c

Unit-9

Legal Aspect

1. Which of the following statements is true?

- (A) The Competition Commission of India is headed by a person having Judicial background.
- (B) The definition of the term 'goods' as given in the Competition Act, 2002, is the same as given in the Sale of Goods Act, 1930.
- (C) Both (A) and (B) are true.
- (D) None of the above is true.

Answer: (C)

Explanation: Eligibility of members: The Chairperson and every other Member shall be a person of ability, integrity and standing and who, has been, or is qualified to be a judge of a High Court, or, has special knowledge of, and professional experience of not less than fifteen years in international trade, economics, business, commerce, law, finance, accountancy, management, industry, public affairs, administration or in any other matter which, in the opinion of the Central Government, may be useful to the Commission.

In the Competition Act, 2002 "goods" means goods as defined in the Sale of Goods Act, 1930 (8 of 1930) and includes— (A) products manufactured, processed or mined; (B) debentures, stocks and shares after allotment; (C) in relation to goods supplied, distributed or controlled in India, goods imported into India;

2. Which one of the following is not included in the Consumer Rights as per the Consumer Protection Act, 1986?

- (A) Right to be protected against marketing of hazardous goods and services.
- (B) Right to be heard.
- (C) Right to a physical environment that will protect and enhance quality of life.
- (D) Right to seek redressal of legitimate complaints.

Answer: (C)

Explanation: The Consumer Protection Act, 1986, defines Right to Information as 'the right to be informed about the quality, quantity, potency, purity, standard and price of goods so as to protect the consumer against unfair trade practices'.

3. A consumer can file a complaint under the Consumer Protection Act, 1986, on any of the following grounds except:

- (A) Sale of defective goods
- (B) Provision of deficient service
- (C) Charging very high price
- (D) Unfair trade practice

Answer: (C)

Explanation: A complaint may be made in writing under the following circumstances: Loss or damage is caused to the consumer due to unfair or restrictive trade practice of a trader or service provider; the article purchased by a consumer is defective; the services availed of by a consumer suffer from any deficiency; a trader or service provider, as the case may be, has charged for the goods or for the service mentioned in the complaint a price in excess of the stipulated price; Goods or services, which will be hazardous to life and safety, when used, are being offered for sale to the public.

4. The term quasi-contract is used in Indian Contract Act in

(A) Section 68 to 72

(B) Section 69

(C) Section 71

(D) non of these

Answer: (A)

Explanation: Sections 68 – 72 of the Indian Contract Act, 1872 detail five circumstances under which a Quasi contract comes to exist. Remember, there is no real contract between the parties and the law imposes the contractual liability due to the peculiar circumstances.

5. Indicate the ground on which a complaint under the Consumer Protection Act, 1986, shall be invalid.

(A) A product having short weight.

(B) A service provided free of cost.

(C) A misleading advertisement given in newspaper.

(D) None of the above.

Answer: (B)

6. Section 131 of the Negotiable Instruments Act extends protection to the _____

(A) Collecting Banker

(B) Paying Banker

(C) Advising Banker

(D) Confirming Banker

Answer: (A)

Explanation: The fundamentals of claiming protection under Section 131 of Negotiable Instruments Act 1881 are as follows:

(i) The collecting banker should have acted in good faith & without negligence. Acted in good faith refers that the act that is done honestly. The plea of good faith can be refuted on the ground of unruliness indicative of want of proper care & attention.

(ii) The banker should have accumulated a crossed cheque

(iii) The proceeds should have been gathered for a customer, i.e., a person who has an account with him.

(iv) That the collecting banker has acted as an agent of the customer. If he had developed into the holder for value, the protection available in Section 131 of Negotiable Instruments Act 1881 is forfeited.

7. When a customer, by a letter has advised the bank not to honour/pay a particular cheque, such letter is called _____

- (A) Cancellation letter
- (B) Garnishee letter
- (C) Mandate
- (D) None of the above

Answer: (D)

Explanation: When you have issued a cheque to someone and for some reason you don't want to pay the money to him, you instruct the bank not to honour the cheque, this is called stop payment of the cheque.

8. Which of the following is not regulated by The Competition Act, 2002?

- (A) Abuse of dominant position
- (B) Anti-competitive agreements
- (C) Medical negligence
- (D) Predatory pricing

Answer: (C)

Explanation: 1. To protect the interests of the consumers by providing them good products and services at reasonable prices.

2. To promote healthy competition in the Indian market.

3. To prevent the interests of the smaller companies or prevent the abuse of dominant position in the market.

4. To prevent those practices which have adverse impact on competition in the Indian markets.

5. To ensure freedom of trade in Indian markets.

6. To regulate the operation and activities of combinations (acquisitions, mergers and amalgamation).

The Act mainly covers these aspects;

- 1. Prohibition of anti competitive agreements
- 2. Prohibition of abuse of dominance
- 3. Regulation of combination (acquisition, mergers, and amalgamation of certain size)
- 4. Establishment of the competition commission of India
- 5. Power and functions of the competition commission of India

9. Indicate what is not correct in respect of the Consumer Protection Act, 1986.

- (A) No complaint can be entertained in respect of a product purchased more than 2 years back.
- (B) A complaint against medical negligence can be filed by legal heir or representative of the deceased.
- (C) A complaint involving a claim of Rs. 15 lakhs is to be filed before the State Commission.
- (D) Both (A) and (C)

Answer: (C)

Explanation: The Consumer Protection Act, 1986 states the jurisdiction of each form. A written complaint, can be filed before the District Consumer Forum for pecuniary value of upto Rupees twenty lakh, State Commission for value upto Rupees one crore and the National Commission for value above Rupees one crore, in respect of defects in goods and or deficiency in service.

10. Under which legislation, the manufacturers and distributors are required to declare Maximum Retail Price (MRP) on packaged commodities?

- (A) The Bureau of Indian Standards Act, 1986
- (B) The Consumer Protection Act, 1986
- (C) The Standards of Weights and Measures Act, 1976
- (D) The Essential Commodities Act, 1955

Answer: (C)

Explanation: The Standard of Weights and Measures Act, 1976 was enacted to establish standards of weights and measures, to regulate inter-state trade or commerce in weights, measures and other goods which are sold or distributed by weight, measure or number, and to provide for matters connected therewith or incidental thereto. The Act extends to the whole of India.

11. The major provisions for employees' health and safety are contained in

- (A) The Industrial Disputes Act, 1947
- (B) The Factories Act, 1948
- (C) The Industrial Employment (Standing Orders) Act, 1946
- (D) The Employees' Compensation Act, 1923

Answer: (B)

Explanation: The legislation for labour welfare, known as the Factories Act, 1948, was enacted with the prime objective of protecting workmen employed in factories against industrial and occupational hazards. ... The Act provides for the health, safety, welfare and other aspects of OHS for workers in factories.

12. Indicate your choice through the codes given below:

- 1. A club is an industry under the Industrial Disputes Act, 1947
- 2. Factory as defined under the Factories Act, 1948 includes a mine.
- 3. For purpose of the payment of bonus to employees, the gross profits earned by a bank is to be calculated in the manner specified in Schedule – I of the Payment of the Bonus Act, 1965.
- 4. Various labour laws do not apply to public sector undertakings.

Codes:

- (A) While 1 and 2 are correct, others are not.
- (B) All the statements are correct.
- (C) Only 1 is correct, others are incorrect.
- (D) Only 1 is incorrect, all others are correct.

Answer: (A)

13. Match the following:

List – I

Years

(a) 1956

(b) 1986

(c) 1992

(d) 2002

Codes:

(a) (b) (c) (d)

(A) (ii) (i) (iii) (iv)

(B) (i) (ii) (iii) (iv)

(C) (ii) (iii) (i) (iv)

(D) (i) (iv) (iii) (ii)

Answers: (A)

List – II

Act

(i) Consumer Protection Act

(ii) Indian Companies Act

(iii) Securities and Exchange Board of India

(iv) Securitization Act

14. Which one is not an element of legal environment?

(A) Act of Parliamentarians in Lok Sabha

(B) Indian Contract Act, 1872

(C) Indian Partnership Act, 1932

(D) Negotiable instruments Act, 1881

Answer: (A)

Explanation: The Parliament of India (IAST: Bhāratīya Sansad) is the supreme legislative body of the Republic of India. It is a bicameral legislature composed of the President of India and the two houses: the Rajya Sabha (Council of States) and the Lok Sabha (House of the People). The President in his role as head of legislature has full powers to summon and prorogue either house of Parliament or to dissolve Lok Sabha. The president can exercise these powers only upon the advice of the Prime Minister and his Union Council of Ministers.

15. Which of the following section in Negotiable Instruments Act deals with the Bill of Exchange?

A. Section 5

B. Section 6

C. Section 4

D. Section 13

Answer: A

Explanation: Section 5 of the Negotiable Instruments Act, 1881 defines bills of exchange. According to this definition, a bill of exchange is an instrument in writing containing an unconditional order.

16. Which of the followings are not the Negotiable Instruments as defined by the Statute...

- A. Banker's Note
- B. Promissory Note
- C. Bill of Exchange
- D. Cheques

Answer: A

Explanation: Banker's Note. Promissory Notes, Bill of Exchange and Cheques are Negotiable Instruments.

17. Which of the following is/are true about Negotiable Instruments Act, the Promissory Note is ...

- (I) Definition of Promissory Note is given in section 8 of Negotiable Instrument Act
 - (II) Containing an unconditional undertaking
 - (III) To pay a certain sum of money only to a specific person or the bearer
 - (IV) The seller is bound to accept the promissory note
 - (V) A document written and Signed by the payer/maker
- A. (I), (II) and (III)
 - B. (II), (III) and (V)
 - C. (II), (III), and (IV)
 - D. (I), (III) and (IV)

Answer: B

Explanation: A promissory note refers to a written promise to its holder by an entity or an individual to pay a certain sum of money by a pre-decided date. Definition is mentioned in the section 4 of Negotiable Instrument Act. The seller isn't bound to accept the promissory note.

18. Dishonour of Negotiable Instrument by Non-Payment is covered under section in Negotiable Instrument Act 1882...

- A. Section 90
- B. Section 91
- C. Section 92
- D. Section 93

Answer. C

Explanation: Section 92: Dishonour by non-payment. —A promissory note, bill of exchange or cheque is said to be dishonoured by non-payment when the maker of the note, acceptor of the bill or drawee of the cheque makes default in payment upon being duly required to pay the same.

19. The Negotiable Instruments (Amendment) Bill, 2017 inserted a provision allowing a court trying an offence related to cheque bouncing, to direct the drawer (person who writes the cheque) to pay interim compensation to the complainant. The interim compensation will not exceed ____% of the cheque amount?

- A. 15%
- B. 25%
- C. 30%
- D. 20%

Answer: D

Explanation: The Bill inserts a provision allowing a court trying an offence related to cheque bouncing, to direct the drawer (person who writes the cheque) to pay interim compensation to the complainant. This interim compensation may be paid under certain circumstances, including where the drawer pleads not guilty of the accusation. The interim compensation will not exceed 20% of the cheque amount, and will have to be paid by the drawer within 60 days of the trial court's order to pay such a compensation.

20. Which of the following is/are true about Bill of Exchange?

- (I) A bill of exchange requires in its inception two parties.
 - (II) A bill of exchange or "draft" is a written order by the drawer to the drawee to pay money to the payee.
 - (III) Bills of exchange are used primarily in international trade, and are written orders by one person to his bank to pay the bearer a specific sum on a specific date.
 - (IV) Definition of 'Bill of Exchange' is mentioned in the Section 6 of Negotiable Instrument Act.
- A. (I) and (IV)
 - B. (I), (II) and (IV)
 - C. (II) and (III)
 - D. All of the Above

Answer: C

Explanation: A bill of exchange requires in its inception three parties—the drawer, the drawee, and the payee. Definition of 'Bill of Exchange' is mentioned in the Section 5 of Negotiable Instrument Act.

21. If the holder of a bill of exchange allows the drawee more than ____ hours, exclusive of public holidays, to consider whether he will accept the same, all previous parties not consenting to such allowance are thereby discharged from liability to such holder.

- A. 24
- B. 12
- C. 36
- D. 48

Answer: D

Explanation: If the holder of a bill of exchange allows the drawee more than 48 hours, exclusive of public holidays, to consider whether he will accept the same, all previous parties not consenting to such allowance are thereby discharged from liability to such holder.

22. Section 6 of Negotiable Instruments Act defines ____

- A. Cheque
- B. Bill of Exchange
- C. Promissory Notes
- D. Dishonour by non-payment
- E. Dishonour by non-acceptance

Answer: A

Explanation: Section 6 of Negotiable Instruments Act 1881: “Cheque” A “cheque” is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand.

23. If a Minor draw, indorse, deliver and negotiate Negotiable Instruments, it binds ____

- A. All the parties except minor
- B. All the parties including minor
- C. Minor Only
- D. Minor and Only Drawer

Answer: A

Explanation: A minor may draw, indorse, deliver and negotiate such instrument so as to bind all parties except himself.

24. Which of the following is/are false about Dishonour of Cheque?

- (I) Section 138 defines Dishonour of cheque for insufficiency, etc., of funds in the account.
 - (II) Such cheque has been presented to the bank within a period of twelve months from the date on which it is drawn or within the period of its validity, whichever is earlier
 - (III) Imprisonment for such offence may be extended for period of five year
 - (IV) Section 138 apply unless – the drawer of such cheque fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice.
- A. (I) and (IV)
 - B. (II) and (III)
 - C. (II),(III) and (IV)
 - D. Only (IV)

Answer: B

Explanation: Section 138 : Where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from out of that account for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank, such person shall be deemed to have committed an offence and shall, without prejudice to any other provision of this Act, be punished with imprisonment for 8 [‘a term which may be extended to two years’] or with fine which may extend to twice the amount of the cheque, or with both:

Provided that nothing contained in this section shall apply unless—

- (a) the cheque has been presented to the bank within a period of six months from the date on which it is drawn or within the period of its validity, whichever is earlier;
- (b) the payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice; in writing, to the drawer of the cheque, 9 [within thirty days] of the receipt of information by him from the bank regarding the return of the cheque as unpaid; and
- (c) the drawer of such cheque fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice.

25. Which section of RTI Act, 2005 deals with obligations of public authorities?

- A. Section 6
- B. Section 7
- C. Section 4(1)
- D. Section 8

Answer: (C)

Explanation: Section 4(1)(d) of the RTI Act states that the public authorities while taking decisions which are in the nature of administrative decision or quasi judicial decisions to give reasons to the aggrieved persons.

26. The sale of Goods Act, 1930 contains

- A. 66 Sections
- B. 68 Sections
- C. 70 Sections
- D. None of above

Answer: A

27. The Sale of Goods Act, 1930 is based on

- A. US Sale of Goods Act
- B. English Sale of Goods Act
- C. Indian Sale of Goods Act
- D. None of above

Answer: B

Explanation: Sale of Goods Act, 1930 (Part I – Introduction) Originally, the transactions related to sale and purchase of goods was regulated by Chapter VII (Sections 76 to 123) of Indian Contract Act, 1872 – which was broadly based on English common law.

28. The voluntary transfer of possession from one person to another is called

- A. Transfer
- B. Change of possession
- C. Delivery
- D. None of above

Answer: C

Explanation: The seller has a duty to ensure the goods are in a state to be dispatched but not to do the actual delivery unless that is what is agreed in the contract. Ownership does not necessarily pass with possession.

29. Future goods means goods to be manufactured or produced or acquired by the seller

- A. In future prescribed time
- B. After making of contract
- C. Before making of contract
- D. None of above

Answer: B

Explanation: In sec 2(6) of the Act, future goods have been defined as the goods that will either be manufactured or produced or acquired by the seller at the time the contract of sale is made. The contract for the sale of future goods will never have the actual sale in it, it will always be an agreement to sell.

30. The agent having in customary course of business as such agent authority either to sell goods or to consign goods for the purpose of sale or to buy goods or to raise money on the security of goods is called

- A. Agent
- B. Mercantile agent
- C. Partner
- D. None of above

Answer: B

Explanation: Mercantile agent. a commercial agent, such as a factor or broker, who in the ordinary course of his business has authority to sell goods, to consign goods for sale, to buy goods or to raise money on the security of goods on behalf of his principal.

31. The goods identified and agreed upon at the time a contract of sale is made are called

- A. Ordinary goods
- B. Specified goods
- C. Scheduled goods
- D. None of above

Answer: B

Explanation: Specific goods are goods specifically identified at the time a contract of sale is made, e.g. a shirt made of cotton and with a Mickey Mouse cartoon on it. If the good is not so identified, the contract is for the sale of unascertained goods.

32. There are _____, essential requisites of sale

- A. 2
- B. 3
- C. 5
- D. None of above

Answer: D

Explanation: Five Essential Elements of a Valid Contract. All the requirements of a valid contract such as free consent, consideration, competency of the parties, lawful object and consideration must be fulfilled.

33. According section 5(2) Subject to provision of any law for the time being in force a contract of sale may be

- A. Made in writing
- B. By words of month
- C. Partly in writing or partly in words of month
- D. All of above ways

Answer: D

Explanation: Subject to the provisions of any law for the time being in force, a contract of sale may be made in writing or by word of mouth, or partly in writing and partly by word of mouth or may be implied from the conduct of the parties.

34. Section _____ of the Sale of Goods Act deals with rights of unpaid seller

- A. 46
- B. 47
- C. 48
- D. None of above

Answer: A

Explanation: Section 46 in The Sale of Goods Act, 1930. (a) a lien on the goods for the price while he is in possession of them; (b) in case of the insolvency of the buyer a right of stopping the goods in transit after he has parted with the possession of them; (c) a right of re-sale as limited by this Act.

35. Section 57, of the Sale of Goods Act, deals with

- A. Suit for price
- B. Suit for damages for non-delivery
- C. Suit for damages for non-acceptance
- D. None of above

Answer: B

Explanation: Section 57 states that if the seller is intentionally or wrongfully neglecting the delivery of the goods to the customer, the customer can sue the seller for damages for non-delivery

36. Section 58, of The Sale of Goods Act provide right of suit for Specific Performance of Contract on the part of

- A. Seller
- B. Buyer
- C. Both (a) and (b)
- D. None of above

Answer: A

37. Which kind of partnership one partner has unlimited liability and other partner have limited liability?

- A) Partnership-at-will
- B) Limited partnership
- C) General partnership
- D) Particular partnership

Answer: B

Explanation: Limited partnerships (LP) are a form of partnership that provides more protection for partners. In an LP, there is at least one general partner that manages operations and takes on unlimited liability.

38. Which types of partnership have no agreement in terms of the duration of partnership?

- A) Partnership-at-will
- B) Limited partnership
- C) General partnership
- D) Particular partnership

Answer: A

Explanation: Partnership at will means a partnership in which the partners have not agreed to remain partners until the expiration of a definite term or the completion of a particular undertaking. In other words, it is a partnership that can be dissolved by any partner at any time without any liability

39. A partnership firm comes into existence by agreement between all the partners, and such agreement should be

- (A) Express agreement only.
- (B) Implied agreement only.
- (C) Either express or implied.
- (D) Registered.

Ans: Either express or implied.

Explanation: A business partnership consists of a contract between two or more people in a joint business who agree to pool their funds and talent and share in the profits and losses of the enterprise. The first element of a partnership is a contract among the partners. This contract may be either express or implied and may be written or oral.

40. A partnership deed usually contain the particulars relating to
- (A) Name of firm and partners.
 - (B) Nature of business and duration of firm.
 - (C) Capital contribution, profit/loss sharing ration and other agreed terms.
 - (D) All of these.

Answer: (D) All of these.

Explanation: Partnership deed is an agreement between the partners of a firm that outlines the terms and conditions of partnership among the partners. It specifies the various terms such as profit/loss sharing, salary, interest on capital, drawings, admission of a new partner, etc. in order to bring clarity to the partners.

41. A partner is the agent of the firm for the business of the firm
- (A) True, as the mutual agency relationship is the foundation of the law of partnership.
 - (B) False, as in that case a firm is reduced to the status of a mere agency.

Answer: (a) True, as the mutual agency relationship is the foundation of the law of partnership.

42. Which of the following statement is incorrect?
- (A) A person who receives the profits is always a partner.
 - (B) A person who receives the profits is not necessarily a partner.
 - (C) The true test of partnership is the mutual agency i.e., agency relationship among partners.
 - (D) The partnership comes into existence only an agreement.

Ans: (A) A person who receives the profits is always a partner.

Explanation: A partner is a member in a partnership, an entity in which both the profits or losses of a business or other venture are shared between all members. Corporations favour partnerships because of a taxation structure that eliminates dividend taxes upon the profits of owners.

43. A, a contractor, appointed B to manage his entire work. It was agreed that B would receive 50% of the profits as his remuneration and would bear all the losses, if any. Here, B is
- (A) A's partner
 - (B) A's agent
 - (C) Sole proprietor
 - (D) None of these

Answer: (B) A's agent

Explanation: An agent, in legal terminology, is a person who has been legally empowered to act on behalf of another person or an entity. An agent may be employed to represent a client in negotiations and other dealings with third parties.

44. Which of the following statement is correct?

- (A) A servant or an agent who agrees to receive, in addition to or in place of his regular remuneration, a portion of profits of business, is considered to be a partner.
- (B) A widow or child of a deceased partner who receives a portion of profits as annuity, is considered to be a partner.
- (C) A seller of goodwill who is given a share in the profits of a business he has sold, is considered to be a partner.
- (D) A joint-owner of property who receives a share of profit arising from the property, is not considered to be a partner.

Answer: (D) A joint-owner of property who receives a share of profit arising from the property, is not considered to be a partner.

45. Which of the following statement about a minor partner is incorrect?

- (A) A minor can be admitted only to the benefits of an existing firm.
- (B) A minor cannot be admitted to the benefits of a new firm taking minor as partner.
- (C) A minor cannot be a full-fledged partner in a firm.
- (D) A minor can be a full-fledged partner in a firm.

Answer: (D) A minor can be a full-fledged partner in a firm.

Explanation: Section 30 of the Indian Partnership Act 1932 contains legal provisions about a minor in a partnership. And a partnership is a contract between the partners. Hence a minor cannot be a partner in a partnership firm. However, according to the Partnership Act, a minor may be admitted to the benefits of a partnership.

46. A partnership where its duration is fixed and cannot be dissolved by any partner at his will, is known as

- (A) Particular partnership
- (B) General partnership
- (C) Partnership for fixed period
- (D) Partnership at will.

Ans: (C) Partnership for fixed period

Explanation: FIXED TERM PARTNERSHIP is formed for a definite period of time. The partnership comes to an end on a date specified in the partnership deed unless express mention in the contract to the contrary. If the business is continued beyond such expiry period, the partnership is deemed as a partnership at will

47. In a partnership firm, the difference of opinion over some 'fundamental matter' can be settled

- (A) All the partners
- (B) Majority of partners
- (C) Senior partners
- (D) Managing partner.

Answer: (A) All the partners

48. RTI Act 2005 came into force on

- A. 12 October 2005
- B. 15 August 2005
- C. 15 June 2005
- D. 1 November 2005

Answer: A

Explanation: This law was passed by Parliament on 15 June 2005 and came fully into force on 12 October 2005. Every day, over 4800 RTI applications are filed. In the first ten years of the commencement of the act over 17,500,000 applications had been filed.

49. The officer designated by the public authorities in all administrative units or offices under it to provide information to the citizens requesting for information under the Act is known as

- A. Appellate Authority
- B. Chief Information Commissioner (CIC)
- C. Public Information Officer (PIO)
- D. Assistant Public Information Officer

Answer: C

Explanation: To deal with requests from persons seeking information and render reasonable assistance to the persons seeking such information, taking the assistance of any other officer, if considered necessary by him or her for the proper discharge of duties [Section 5(3) & 5(4)];

50. What is the time limit to get the information concerning the life and liberty of a person?

- A. 48 hours
- B. 24 hours
- C. 5 days
- D. 10 days

Answer: A

Explanation: If information sought concerns the life or liberty of a person, it shall be supplied within 48 hours. In case the application is sent through the Assistant Public Information Officer or it is sent to a wrong public authority, five days shall be added to the period of thirty days or 48 hours, as the case may be.

51. If the interests of a third party are involved in information sought for, the maximum time limit to get the information will be

- A. 30 days
- B. 40 days
- C. 45 days
- D. 60 days

Answer: B

Explanation: If the interests of a third party are involved then time limit will be 40 days (maximum period + time given to the party to make representation). Failure to provide information within the specified period is a deemed refusal.

52. What is the fee for getting information under RTI Act

- A. Rs. 20/-
- B. Rs. 50/-
- C. Rs. 100/-
- D. Rs. 10/-

Answer: D

Explanation: In case of Government of India, the prescribed application fee is Rs. 10/- which can be paid through a demand draft or a banker's cheque or an Indian Postal Order payable to the Accounts Officer of the public authority.

53. First Appeal shall be disposed of by the first appellate authority within _____ days from the date of its receipt.

- A. 40 days
- B. 30 days
- C. 60 days
- D. 50 days

Answer: B

Explanation: Similarly, as per the RTI Act, an appeal shall be disposed of within 30 days on the receipt of the appeal by the First Appellate Authority or within such extended period not exceeding a total of 45 days from the date of filing thereof, as the case may be, for reasons to be recorded in writing.

54. The long title of the RTI Act seeks to promote the following qualities in the working of every public authority:

- A. Transparency
- B. Punctuality
- C. Efficiency
- D. Reputation

Answer: A

Explanation: Secure access to information under the control of public authorities. Promote transparency & accountability in the working of every public authority. Ensure informed citizenry and transparency in governance.

55. Appointment Committee of Central Chief Information Commissioner (CIC) includes

- A. Prime Minister
- B. Leader of the Opposition in the Lok Sabha
- C. One Union Cabinet Minister to be nominated by the Prime Minister
- D. All the above

Answer: D

Explanation: Appointment Committee includes Prime Minister (Chair), Leader of the Opposition in the Lok Sabha and one Union Cabinet Minister to be nominated by the Prime Minister.

56. Consider the following statements about the right to information (RTI) Act, 2005 and select one which is not provided for or specially exempted

- A. It is not applicable in the state of Jammu and Kashmir
- B. An applicant making request for information will have to give reasons for seeking information
- C. Removal of chief information officer
- D. Every information commissioner shall hold office for a term of 5 years or till the age of 65 years whichever is earlier

Answer: C

57. The RTI Act extends to the whole of India except the State of

- A. Jammu and Kashmir
- B. Sikkim
- C. North Eastern area
- D. Andaman & Nicobar island

Answer: A.

58. The first Indian state that introduce the a law on RTI was

- A. Tamil Nadu
- B. U.P.
- C. Maharashtra
- D. Gujarat

Answer: A

Explanation: In 1996, National Campaign for People's Right to Information (NCPRI), one among several civil society groups, was founded with the objective of getting legislation on RTI passed. In 1997, Tamilnadu became the first state in India to have passed a law on Right to Information.

59. The time limit specified in the `RTI Act, 2005` for the Central / State Information Commissions to decide on complaints is

- A. 15 days
- B. One Month
- C. Two Months
- D. No such time limit has been specified

Answer: B

Explanation: According to a court case, RTI applicants can directly approach the SIC or CIC, as in case maybe, and lodge a complaint if they do not get a response from the PIO within 30 days

60. A first appeal against the decision of a PIO can be preferred by
- A. An Applicant
 - B. A person from within the Public Authority
 - C. A person outside the Public Authority to whom the information pertains
 - D. All

Answer: D

61. In 'quid-pro-quo', quo stands for
- A. knowledge disclosed to the public
 - B. monopoly granted for the term of the patent
 - C. exclusive privilege of making, selling and using the invention
 - D. None of the above

Answer: B

Explanation: Quid pro quo ("something for something" in Latin) is a Latin phrase used in English to mean an exchange of goods or services, in which one transfer is contingent upon the other; "a favor for a favor". Other languages use other phrases for the same purpose.

62. Symbol of Maharaja of Air India is
- A. Copyright
 - B. Patent
 - C. Trademark
 - D. All of the above

Answer: C

63. In India, the literary work is protected until
- A. Lifetime of author
 - B. 25 years after the death of author
 - C. 40 years after the death of author
 - D. 60 years after the death of author

Answer: D

Explanation:

- Literary
- dramatic,
- musical
- and
- artistic
- works

Lifetime of the author + sixty years from the beginning of the calendar year next following the year in which the author dies.

64. Design does not include

- A. features of shape
- B. composition of lines or colours
- C. mode or principle of construction
- D. None of the above

Answer: C

65. The agreement that is enforceable by law is known as

- A. Valid agreement
- B. Void agreement
- C. Illegal agreement
- D. Unenforceable agreement

Answer: A

Explanation: A contract is an agreement that is enforceable by law is Valid agreement. A promise or a number of promises that are not contradicting and are accepted by the parties involved is an agreement. A contract is only legally enforceable. An agreement must be socially acceptable.

66. Which of the following is (are) included in Geographical indications of Goods

- A. Handicraft
- B. Foodstuff
- C. Manufactured
- D. All of the above

Ans: D

Explanation: Some of the registered geographical indications includes, agricultural goods like Darjeeling tea, Malabar Pepper, Bangalore Blue Grapes, manufactured goods like Pochampalli Ikat, Kancheepuram Silk, solapuri chadars Bagh Prints, Madhubani paintings etc.

67. The term 'Intellectual Property Rights' covers

- A. Copyrights
- B. Know-how
- C. Trade dress
- D. All of the above

Ans: D

Explanation: Intellectual property then covers copyright and related rights, whereas industrial property means patents, trademarks, trade secrets, plant breeder's rights and so on. Most people use "intellectual property" as a catch-all term, including patents and other items that traditionally were considered "industrial property."

68. The following can not be exploited by assigning or by licensing the rights to others.

- A. Patents
- B. Designs
- C. Trademark
- D. All of the above

Ans: C

69. The following can be patented

- A. Machine
- B. Process
- C. Composition of matter
- D. All of the above

Ans: D

70. Trade mark

- A. is represented graphically
- B. is capable of distinguishing the goods or services of one person from those of others
- C. may includes shapes of goods or combination of colours
- D. All of the above

Ans: D

Explanation: A trademark (also written trade mark or trade-mark) is a type of intellectual property consisting of a recognizable sign, design, or expression which identifies products or services of a particular source from those of others, although trademarks used to identify services are usually called service marks

71. IT Act 2000 amended various sections of which of the following Acts?

- A. Indian Penal Code 1860
- B. Reserve Bank of India Act 1934
- C. Indian Evidence Act 1872
- D. All of the above

Answer. D

Explanation: It also established a Cyber Appellate Tribunal to resolve disputes rising from this new law. The Act also amended various sections of the Indian Penal Code, 1860, the Indian Evidence Act, 1872, the Banker's Book Evidence Act, 1891, and the Reserve Bank of India Act, 1934 to make them compliant with new technologies.

72. IT (Amendment) Act 2008 with amend IT Act 2000 , become effective from

- A. 27 oct 2008
- B. 27 oct 2009
- C. 21 july 2008
- D. 21 may 2009

Answer. B

73. Which Act casts responsibility on body corporate to protect sensitive personal information and provide punishment for offences by companies.

- A. IT Act 2000
- B. IT (Amendment) Act 2008
- C. Indian penal code
- D. none

Answer. B

74. The section deals with legal recognition of electronic records

- A. Section 6
- B. Section 3
- C. Section 4
- D. Section 5

Answer. C

Explanation: Section 4 provides for “legal recognition of electronic records”. It provides that where any law requires that any information or matter should be in the typewritten or printed form then such requirement shall be deemed to be satisfied if it is in an electronic form.

75. The section deals with legal recognition of digital signature C

- A. Section 3
- B. Section 5
- C. Section 6
- D. Section 4

Answer. B

Explanation: The legal recognition of electronic signature has been provided under section 5 of information technology Act 2000. It provides that if any, information or document if confirmed by electronic signature shall have the same effect as the affixing of signature if done according to the prescribed manner.

76. Which Act in India focuses on data protection and Data privacy ?

- A. Banking Regulation Act 1949
- B. IT Act 2000
- C. Indian Penal Code
- D. IT (amendment) Act 2008

Answer. D

Explanation: Section 43A of the IT Act 2008 provides that bodies corporate possessing, dealing with or handling any sensitive personal data or information in a computer resource owned, controlled or operated by it would be liable to pay damages as compensation to affected persons if they are negligent in implementing and maintaining.

77. Which section of IT Act deals with Child pornography and punishment provided by it for first conviction?

- A. Section 27A, imprisonment upto 5 years plus fine upto 1000000
- B. Section 67D, imprisonment upto 3 years plus fine upto 500000
- C. Section 67C, imprisonment upto 3 years plus fine upto 500000
- D. Section 67B, imprisonment upto 5 years plus fine upto 1000000

Answer. D

Explanation: Section 67B punishes child pornography, child grooming or exploitation. This Section was added by IT (Amendment) Act, 2008. According to this Section, if any person publishes or transmits material depicting children in sexually explicit acts in electronic form or creates images text, collects, seeks, downloads, advertises, promotes or distributes content that depicts children in obscene or in sexually explicit manner, such person is punishable with imprisonment for a term which may extend upto five years and imposed fine which may extend upto Rs.10.00 Lacs. The said Section also provides that if any person entices children into online relationship with one or more children for sexually explicit acts or in a manner that can offend a reasonable adult, or facilitates abusing children online or records in electronic form own abuse or that of others relating to sexual explicit act with children is punishable on first conviction with imprisonment for a term which may extend upto five years and fine upto Rs.10.00 Lacs.

78. Which section of IT Act deals with publishing sexually explicit content in e form and punishment provided by it for first conviction?

- A. Section 67A, imprisonment upto 5 years plus fine upto 1000000
- B. Section 67A, imprisonment upto 3 years plus fine upto 500000
- C. Section 67B, imprisonment upto 5 years plus fine upto 1000000
- D. Section 67B, imprisonment upto 3 years plus fine upto 500000

Answer. A

Explanation: Section 67A provides punishment for publishing or transmitting obscene digital content containing sexually explicit acts. This could be any adult content videos or MMS or short clips or images including 'selfies' (self clicked images) . As per 67A of I.T. Act punishment on first conviction is imprisonment of a term which may extend to five years and fine which may extend upto Rs.10.00 Lacs.

79. Which of the following Act is not amended by IT Act 2000

- A. Indian Penal Code 1860
- B. Reserve Bank of India Act 1934
- C. Bankers Book Evidence Act 1891
- D. Income tax Act 1961

Answer. D

80. What is the proposed punishment for Cyber Terrorism in IT Act?

- A. 1 crore rupees penalty
- B. Life Imprisonment
- C. 10-year imprisonment
- D. 6-year imprisonment

Answer. B

Explanation: Whoever commits or conspires to commit cyber terrorism shall be punishable with imprisonment which may extend to imprisonment for life.

81. Which section of IT Act 2000 proposes a punishment of life imprisonment?

- A. Section 66F
- B. Section 66C
- C. Section 66B
- D. Section 66A

Answer. A

Explanation: Punishment for cyber terrorism section 66F

(1) Whoever,-

(A) with intent to threaten the unity, integrity, security or sovereignty of India or to strike terror in the people or any section of the people by--

(i) denying or cause the denial of access to any person authorised to access computer resource; or

(ii) attempting to penetrate or access a computer resource without authorisation or exceeding authorised access; or

(iii) introducing or causing to introduce any computer contaminant,

82. What is the time limit for filing appeal against the order of Cyber appellate tribunal?

- A. 30 days
- B. 90 days
- C. 60 days
- D. 45 days

Answer. C

Explanation: Any person aggrieved by any decision or order of the Cyber Appellate Tribunal may file an appeal to the High Court within sixty days from the date of communication of the decision or order of the Cyber Appellate Tribunal to him on any question of fact or law arising out of such order

83. Which section of IT Act deals with the appointment of Controller of certifying authorities?

- A. Section 5
- B. Section 15
- C. Section 10
- D. Section 17

Answer. D

Explanation: The Certifying Authorities (CAs) issue digital signature certificates for electronic authentication of users. The Controller of Certifying Authorities (CCA) has been appointed by the Central Government under section 17 of the Act for purposes of the IT Act.

84. How many schedules are there in IT Act 2000?

- A. 3
- B. 4
- C. 6
- D. 2

Answer. B

Explanation: The Information Technology Act, 2000 which consist of 94 Sections in 13 Chapters and with Four Schedules provides for a legal framework for evidentiary value of electronic record and computer crimes which are of technological nature.

85. Private key is used to

- a. Digitally signs
- b. Verify the sign
- c. Verify the document
- d. coding

Answer. A

Explanation: It is created as part of public key cryptography during asymmetric-key encryption and used to decrypt and transform a message to a readable format. Public and private keys are paired for secure communication, such as email. A private key is also known as a secret key.

86. Public key is used to

- A. Digitally signs
- B. Verify the sign
- C. Verify the document
- D. coding

Answer. B

Explanation: In cryptography, a public key is a large numerical value that is used to encrypt data. The key can be generated by a software program, but more often, it is provided by a trusted, designated authority and made available to everyone through a publicly accessible repository or directory.

87. Competition commission was established on

- A. 12 October 2005
- B. 14 October 2005
- C. 14 October 2003
- D. 15 September 2003

Answer. C

88. Which of the following is not regulated by competition Act. 2002? (2013)

- A. Anti-Competitive Agreements
- B. Predatory Pricing
- C. Medical Negligence
- D. Abuse of dominant position

Explanation: The competition act covers those anti-competitive e.g. cartels and abuse of dominant position.

89. Which of the following is not the objective of competition act, 2002?

- A. Prohibition of Ant-Competitive agreements
- B. Prohibition of Restrictive Trade Practices
- C. Regulation of combination
- D. Prohibition of dominant position

Answer. B

Explanation: the objective of competition act 2002 is Prohibition of Ant-Competitive agreements, Regulation of combination, Prohibition of dominant position.

90. Doctrine of caveat emptor provides that it is the duty of to see that goods are fit for his purpose

- A. seller
- B. buyer
- C. owner
- D. All of these

Answer. B

Explanation: Caveat emptor is a neo-Latin phrase meaning "let the buyer beware." It is a principle of contract law in many jurisdictions that places the onus on the buyer to perform due diligence before making a purchase. The term is commonly used in real property transactions but applies to other goods, as well as some services.

91. Which of the following section defines unpaid seller.

- A. Section 45
- B. Section 46
- C. Section 47
- D. Section 48

Answer. A

Explanation: Definition of Unpaid Seller as per Section 45 of the Sale of Goods Act – (1) The seller of goods is deemed to be an unpaid seller within the meaning of this Act – (a) when the whole of the price has not been paid or tendered; (b) when a bill of exchange or other negotiable instrument has been received as conditional

92. Which of the following is a right of unpaid seller against buyer?

- A. Suit for price
- B. Suit for interest
- C. Both (A) and (B)
- D. Neither (A) and (B)

Answer. B

Explanation: These rights of the unpaid seller against the buyer are called 'rights in personam'. These are as follows: If the property in the goods has passed to the buyer and the buyer wrongfully refuses to pay for the goods, the seller may sue him for the price.

93. Indian GST model hasrate structure.

- A. 3
- B. 4
- C. 5
- D. 6

Answer. B

Explanation: In India GST model has 4 basic rate structure. They are 5%, 12%, 18% and 28%

94. GST is a based tax on consumption of goods and services

- A. Duration
- B. Destination
- C. Dividend
- D. Development

Answer. B

Explanation: In India it is a comprehensive, multi-stage, **destination-based tax** that is levied on every value addition.

95. In India GST came effective from July 1st 2017 has chosen.....model of dual- GST

- A. USA
- B. UK
- C. Canadian
- D. Japan

Answer. C

Explanation: India has chosen the Canadian model of dual GST. Only a handful of countries, such as India, Canada and Brazil, have a dual GST structure.

96. What is the maximum rate prescribed under CGST?

- A. 12%
- B. 20%
- C. 28%
- D. 18%

Answer. B

Explanation: As per section 9 (1) Subject to the provisions of sub-section (2), there shall be levied a tax called the **central goods and services tax** on all intra-State supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined under section 15 and at such rates, **not exceeding twenty per cent.**, as may be notified by the Government on the recommendations of the Council and collected in such manner as may be prescribed and shall be paid by the taxable person.

97. What is the threshold limit of turnover in the preceding financial year for opting to pay tax under composition scheme?

- A. ₹ 75 lacs
- B. ₹ 1crore
- C. ₹ 1.5 crore
- D. none of the above

Answer. C

Explanation: Businesses dealing only in goods can only opt for composition scheme. Services providers have been kept outside the scope of this scheme. However, restaurant sector taxpayers may also opt for the scheme. This holds true if your annual turnover is below Rs 1.5 crore. Earlier GST turnover threshold for obtaining the composition scheme was 1 crore which is now raised to 1.5 crore and in some states, it is 75 lakhs.

98. Which one of the following is true

- A. A person can collect tax only he is registered
- B. Registered person not liable to collect tax till his aggregate turnover exceeds threshold limit
- C. A person can collect the tax during the period of his provisional registration
- D. none of the above

Answer. A

Explanation: Only a registered taxable person can collect GST. The taxable person must prominently indicate the GST amount on tax invoices.

99. For E-commerce operator registration threshold limit is?

- A. ₹ 20 lacs
- B. ₹ 50 lacs
- C. ₹ 75 lacs
- D. none of above

Answer. D

Explanation: GST registration is mandatory for E-commerce operator or aggregator

100. Can a registered person under Composition Scheme claim input tax credit.

- A. yes
- B. no
- C. Input tax credit on inward supply of goods only can claimed
- D. Input tax credit on inward supply of services only can claimed

Answer. B

Explanation: No, a Composition Dealer is not allowed to avail input tax credit of GST paid to their supplier.

101. What deductions are allowed from the transaction value

- A. Discounts mention on invoice
- B. Packing Charges mention on invoice
- C. Any amount paid by customer on behalf of the supplier
- D. Freight charges mention on invoice

Answer. A

Explanation: Discounts given before or at the time of supply will be allowed as deduction from transaction value. Such discounts must be clearly mentioned on the invoice.

102. The upper portion of the kinked demand curve is relatively

- A. More inelastic
- B. More elastic
- C. Less elastic
- D. Inelastic

Answer: B

Explanation: The upper portion of the kinked demand curve is relatively more elastic. The kinked-demand curve is a demand curve comprised of two segments, one that is relatively more elastic, which results if a firm increases its price, and the other that is relatively less elastic, which results if a firm decreases its price

103. Given: E_{px} = percentage change in Q_y / percentage change in P_x . The above relationship is

- A. Arc Cross Price Elasticity
- B. Cost Output
- C. Cost profit
- D. Capital Budgeting

Answer. A

Explanation: $PEoD = (\% \text{ Change in Quantity Demanded of X})/(\% \text{ Change in Price of Y})$

Unit-10

Income Tax

1. Mr. X, after about 20 years' stay in India, returns to America on January 29, 2009. He came to India in June 2011. His residential status for the Assessment year 2012-13 will be

- (A) Ordinarily Resident
- (B) Not Ordinarily Resident
- (C) Non-Resident
- (D) Resident or Non-Resident

Answer: (A)

Explanation: here Mr. X stayed in India for 243 days in the previous year, he fulfils one of the basic conditions. He also satisfied the two additional conditions under section 6(6) i.e. (condition-i) he is resident 2 years out of 10 previous year immediately preceding the relevant previous year and (condition-ii) stayed more than 730 days during 7 years immediately preceding the relevant previous year. So, he is Ordinarily Resident.

2. Which of the following statements is/ are true

- 1. Section 147 is related to re-assessment
 - 2. Section 148 is related to regular assessment.
 - 3. Section 145 is related to best judgement assessment
 - 4. Section 140A is related to self-assessment
- (A) Both 1 and 3 are true (B) Both 1 and 4 are true
(C) Both 2 and 3 are true (D) Both 3 and 4 are true

Answer: (B)

Explanation:

Section 147: For the purpose of assessment or reassessment under this **section**, the Assessing Officer may assess or reassess the **income** in respect of any issue, which has escaped assessment, and such issue comes to his notice subsequently in the course of the proceedings under this **section**,

Section 148: As per Section 147 of the Income Tax Act, 1961, the Income Tax Department has the power to reassess an individual's previously filed income tax returns. The Assessing Officer could pick your income tax return for reassessment subject to some pre-defined criteria by sending a notice under section 148 for income Escaping Assessment.

Section 145: Joining or continuing in unlawful assembly, knowing it has been commanded to disperse.—Whoever joins or continues in an unlawful assembly, knowing that such unlawful assembly has been commanded in the manner prescribed by law to disperse, shall be punished with imprisonment of either description for a term which may extend to two years, or with fine, or with both.

After section 140 of the Income-tax Act, the following (section shall be inserted, namely: —

Self-assessment

"140A. (1) Where a return has been furnished under section 139 and the tax payable on the basis of that return as reduced by any tax already paid under any provision of this Act exceeds five hundred rupees, the assessee shall pay the tax so payable within thirty days of furnishing the return.

3. Donation to National Children's Fund will come in which of the following deduction under Sec. 80G of Income Tax Act, 1961.

- (A) 100 percent deduction without any qualifying limit.
- (B) 50 percent deduction without any qualifying limit.
- (C) 100 percent deduction subject to qualifying limit.
- (D) 50 percent deduction subject to qualifying limit.

Answer: (B)

Explanation: Under the existing provisions of section 80G an assessee is allowed a deduction from his total income in respect of donations made by him to certain funds and institutions. The deduction is allowed at the rate of fifty per cent of the amount of donations made except in the case of donations made to certain funds and institutions specified in clause (i) of sub-section (1) of section 80G, where deduction is allowed at the rate of one hundred per cent. In the case of donations made to the National Children's Fund, deduction is allowed at the rate of fifty per cent of the amount so donated.

4. Application for applying a PAN is given in form no.

- (A) 48C
- (B) 49A
- (C) 42B
- (D) 54

Answer: (B)

Explanation: Form No. : 49A. Application for allotment of Permanent Account Number under section 139A of the Income-tax Act, 1961.

5. Unabsorbed depreciation which could not be set off in the same assessment year, can be carried forward up to

- (A) 4 years
- (B) 8 years
- (C) 10 years
- (D) Indefinite period

Answer: (D)

Explanation: Unabsorbed depreciation can be carried forward for indefinite period and can be set off against any other income (other than salary). The unabsorbed depreciation can be carried forward even if the business related to such depreciation have been discontinued.

6. If the book profits of a partnership firm is Rs. 1, 10,000, the remuneration admissible to working partners under Sec.40 (b) of the Income Tax Act, 1961 is

- (A) Rs. 1, 10,000
- (B) Rs. 1, 50,000
- (C) Rs. 99,000
- (D) None of the above

Answer: (B)

Explanation: It should not exceed the permissible limit.

The maximum amount of salary, bonus, commission or other remuneration to all the partners during the previous year should not exceed the limits given below:

- a. On first 3 lakhs of book profit or in case of loss – ₹ 1, 50,000 or 90% of book profits (whichever is higher).
- b. On the balance book profit 60% of book profit.

7. Which of the following expenses is inadmissible while computing income from other sources?

- (A) Interest paid on amounts borrowed to meet tax liabilities.
- (B) Collection charges paid to the banker or any other person to collect interest/dividend.
- (C) Interest on loan taken to invest in securities.
- (D) Depreciation on let-out machinery and plant.

Answer: (A)

Explanation: Examples of other receipts chargeable as income from other sources

Here are some examples of other receipts that automatically fall under this category.

- 1. Income from subletting of a house property by a tenant
- 2. Casual income
- 3. Insurance commissions received by the assessee
- 4. Family pension payments received by the legal heirs of dead employees
- 5. Interest on bank deposits and deposits with companies
- 6. Interest on loans given
- 7. Remuneration received by Members of Parliament
- 8. Rent earned from a vacant plot of land
- 9. Agricultural income from agricultural land situated outside India
- 10. Interest paid by the Government on excess payment of advance tax

8. Given that: Fair rent of a let-out house property is Rs. 75,000. Its Municipal value is Rs. 60,000, standard rent is Rs. 72,000 and actual rent received is Rs. 63,000. What is the Gross Annual Value of this house property?

- (A) Rs. 60,000
- (B) Rs. 63,000
- (C) Rs. 72,000
- (D) Rs. 75,000

Answer: (C)

Explanation: Given

Fair Rent (FR) - ₹75,000

Municipal Value (MV) - ₹60,000

Standard Rent (SR) - ₹72,000

Actual Rent Received - ₹63,000

Step I = Reasonable expected rent of the property (MV or FR, whichever is higher, but subject to maximum of SR) between MV and FR, FR is higher but, FR is higher than SR, so, ₹72,000 will be the RER.

Step II = Rent received after deducting unrealised rent but before adjusting loss due to vacancy (no information about unrealised rent and loss due to vacancy), here we got ₹63,000

Step- III = Amount computed in Step I and Step II, whichever is higher (between ₹72,000 and ₹63,000), we got ₹72,000

Step- IV = Loss due to vacancy (no information)

Step- V = Gross annual value is Step III minus Step IV (here no loss due to vacancy), So, GAV will be the amount calculated in Step III ₹72,000

9. Match the items of List – I with the items of List – II

List – I

(i) Amount deposited in PPF

(ii) Profits and gains from undertakings engaged in infrastructure development

(iii) Contribution to National Defence Fund

(iv) Profits and gains by an undertaking engaged in the development of Special Economic Zone

Codes:

(i) (ii) (iii) (iv)

(A) (d) (c) (b) (a)

(B) (d) (a) (b) (c)

(C) (d) (a) (c) (b)

(D) (b) (a) (c) (d)

Answer: (B)

List – II

(a) 80-IA

(b) 80 G

(c) 80-IAB

(d) 80-C

10. Which of the following deductions will not come under Sec. 80 of the Income Tax Act?
- (A) Deduction in the case of a person with disability
 - (B) Deduction for interest paid on loan taken for pursuing higher education
 - (C) Deduction for interest on loan taken for the construction / purchase of house property
 - (D) Deduction for repayment of any instalment of principal amount borrowed for the purchase / construction of house property

Answer: (C)

Explanation: Buying a home is one of the most common long-term investment goals for most Indians. House prices have indeed shot through the roof and many end up taking home loans. A great chunk of one's income goes towards home loan EMI. So, the government has given plenty of tax benefits for house property under Section 24 of the Income Tax Act.

11. X purchased a land in the P.Y. 1997- 98 for Rs. 50,000. This land was sold by him during the P.Y. 2009-10 for Rs. 8,00,000. The fair market value of this land on 1-4-81 was Rs. 1,20,000. If the Cost Inflation Index for the A.Y. 2010-11 is 632, his capital gain for the A.Y. 2010-11 will be

- (A) Rs. 4,84,000
- (B) Rs. 7,50,000
- (C) Rs. 6,80,000
- (D) Rs. 41,600

Answer: (D)

Explanation: Sale consideration:

Cost of acquisition $(120000 \times 632 / 100)$

Capital Gain

₹8,00,000

₹7,58,400

₹ 41,600

12. Any amount of money received in excess of Rs. 50,000 without consideration is fully taxable in the hands of

- (A) Individuals
- (B) Individuals and HUF
- (C) Individuals, HUF and Company
- (D) All assesses

Answer: (B)

Explanation: if an individual/Huf receives from any person or persons any gift, exceeding Rs. 50000 in any previous year, as per income tax laws, the aggregate amount shall be taxable as Income from Other Sources in the hands of individual or HUF under **section 56**.

13. Mr. James, a citizen of U.S., arrived in India for the first time on 1st July, 2010 and left for Nepal on 15th December 2010. He arrived to India again on 1st January 2011 and stayed till the end of the financial year 2010-11. His residential status for the assessment year 2011-12 is

- (A) Resident (ordinarily resident)
- (B) Not ordinarily resident
- (C) Non-resident
- (D) None of the above

Answers: (B)

Explanation: Mr. James stayed in India during previous year near about 258 days, so he fulfils the First basic condition but, not satisfy any of the additional condition. He is resident but not ordinarily resident.

14. The value of free accommodation in Delhi provided by employer in the private sector is

- (A) 10% of salary
- (B) 15% of salary
- (C) 20% of salary
- (D) 25% of salary

Answers: (B)

Explanation: a) Private sector employees or other employees

a) If it is owned by employer

City having population upto 10 lakhs as per 2001 census – 5% of Salary

City having population exceeding 10 lakhs but upto 25 lakhs as per 2001 census – 10% of Salary

City having population exceeding 25 lakhs as per 2001 census – 15% of Salary

b) If taken on leased by employer

Actual lease rent paid by employer

15% of Salary

Whichever is less will be taxable

15. Which of the following is not a capital asset under capital gains head of income?

- (A) Stock in trade
- (B) Goodwill of business
- (C) Agricultural Land in Delhi
- (D) Jewellery

Answers: (A)

Explanation: According to section 2(14), a capital asset means –

(a) property of any kind held by an assessee, whether or not connected with his business or profession;

(b) any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the SEBI regulations.

However, it does not include—

(i) Any stock-in-trade [other than securities referred to in (b) above], consumable stores or raw materials held for the purpose of the business or profession of the assessee;

(ii) Personal effects, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him, but excludes –

(a) Jewelry;

(b) Archaeological collections;

(c) Drawings;

(d) Paintings;

(e) Sculptures; or

(f) Any work of art.

(iii) Rural agricultural land in India

- (iv) 6½% Gold Bonds, 1977, or 7% Gold Bonds, 1980, or National Defence Gold Bonds, 1980, issued by the Central Government;
- (v) Special Bearer Bonds, 1991 issued by the Central Government;
- (vi) Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 notified by the Central Government.

16. Match the items of List – I with List – II:

List – I

I. Tax Planning

II. Tax Avoidance

III. Tax Evasion

IV. Tax Administration

List – II

1. Making suitable arrangement of TDS

2. Understatement of Income

3. Availing deduction under Section 10A of IT Act.

4. Misinterpreting the provisions of the IT Act

Codes:

I II III IV

(A) 2 1 4 3

(B) 1 4 3 2

(C) 3 4 2 1

(D) 4 1 3 2

Answers: (C)

17. Under the Income Tax Act, 1961 unabsorbed depreciation can be carried forward for set-off purpose:

(A) For 4 years

(B) For 5 years

(C) For 8 years

(D) For unspecified period

Answers: (D)

Explanation: Unabsorbed depreciation can be carried forward for indefinite period and can be set off against any other income (other than salary). The unabsorbed depreciation can be carried forward even if the business related to such depreciation have been dis-continued.

18. Minimum Alternative Tax (MAT) under Sec.115 JB of the Income Tax Act is applicable on

(A) Partnership firm

(B) Association of persons

(C) Certain companies

(D) All types of companies

Answer: (C)

Explanation: Minimum Alternative Tax is payable under the Income Tax Act. The concept of MAT was introduced to target those companies that make huge profits and pay the dividend to their shareholders but pay no/minimal tax under the normal provisions of the Income Tax Act, by taking advantage of the various deductions, and exemptions allowed under the Act. But with the introduction of MAT, the companies have to pay a fixed percentage of their profits as Minimum Alternate Tax. MAT is applicable to all companies, including foreign companies.

19. For the Assessment Year 2018-19, deduction under Sec. 80G is available without any limit but at the rate of 50% on

- (A) Prime Minister's National Relief Fund.
- (B) National Foundation for communal Harmony.
- (C) Jawahar Lal Nehru Memorial Fund.
- (D) Chief Minister Relief Fund.

Answer: (C)

Explanation: Donations Eligible for 50% Deduction Without Qualifying Limit

- Jawaharlal Nehru Memorial Fund
- Prime Minister's Drought Relief Fund
- Indira Gandhi Memorial Trust
- Rajiv Gandhi Foundation

20. Interest on capital paid by a firm to its partners, under the Income Tax Act, 1961, is allowed

- (A) 6%
- (B) 12%
- (C) 15%
- (D) 18%

Answer: (B)

Explanation: Payment of any simple interest to any partner is allowed only to the extent of 12% per annum as deduction as per section 40(b). Even if the partnership deed authorizes any payment of higher rate of interest than 12% to any partner, the excess of interest will not be deducted.

21. Under capital gains head of the Income Tax Act, the income from sale of Household Furniture is

- (A) Taxable Income
- (B) Capital Gain
- (C) Revenue Gain
- (D) Exempted Income

Answer: (D)

Explanation: According to section 2(14), a capital asset means –

- (a) property of any kind held by an assessee, whether or not connected with his business or profession;
- (b) any securities held by a Foreign Institutional Investor which has invested in such securities in accordance with the SEBI regulations.

However, it does not include—

- (i) Any stock-in-trade [other than securities referred to in (b) above], consumable stores or raw materials held for the purpose of the business or profession of the assessee;
- (ii) Personal effects, that is to say, movable property (including wearing apparel and furniture) held for personal use by the assessee or any member of his family dependent on him, but excludes –
 - (a) Jewelry;
 - (b) Archaeological collections;

- (c) Drawings;
- (d) Paintings;
- (e) Sculptures; or
- (f) Any work of art.
- (iii) Rural agricultural land in India
- (iv) 6½% Gold Bonds, 1977, or 7% Gold Bonds, 1980, or National Defence Gold Bonds, 1980, issued by the Central Government;
- (v) Special Bearer Bonds, 1991 issued by the Central Government;
- (vi) Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 notified by the Central Government.

22. Under Section 80E of the Income Tax Act, 1961 deduction in respect of payment of interest on loan taken for higher education shall be allowed up to

- (A) Rs. 10,000
- (B) Rs. 15,000
- (C) Rs. 20,000
- (D) Without any limit

Answer: (D)

Explanation: Once you avail of an education loan, the interest paid (which is a component of your EMI) on the education loan is allowed as a deduction under Section 80E of the Income Tax Act, 1961. This deduction is available for a maximum of 8 years or till the interest is repaid, whichever is earlier.

23. _____ is the casual income.

- (A) Interest received
- (B) Dividend income
- (C) Pension received
- (D) Winning from lotteries

Answer: D

Explanation: Casual income means an income which is casual in nature, i.e., which is unplanned, uncertain, accidental, sudden income which occurs just by chance and the person cannot depend upon it to produce income in future. They are treated as income from other sources and are taxable u/s 56 of Income Tax Act.

24. The way of tax liability by taking full advantage provided by the Act is _____.

- (A) Tax management
- (B) Tax avoidance
- (C) Tax planning
- (D) Tax evasion

Answer: C

Explanation: It is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. Assessee legally takes advantage of the loopholes in the Act.

25. Loss from lottery can be set-off against

- (A) Income from lottery
- (B) Any other business
- (C) Cannot be set-off
- (D) None of these

Answer: C

Explanation: Loss under one head of Income can be setoff against Income under another head of Income subject to few exceptions as under:

- Loss from speculation business cannot be setoff against any other head of Income.
- Loss under the head “**Capital gains**” cannot be setoff against any other head of Income.
- Loss from activity of owning and maintaining race horses cannot be setoff against any other head of Income..
- Loss from specified business referred u/s 35AD cannot be setoff against any other head of Income.
- Loss cannot be setoff against winnings from lotteries, crossword puzzles, races, card games, and other games.
- Normal business loss cannot be setoff against Income under the head “Salaries”
- Loss under the head “**Income from House property**” can be setoff against any other head of income subject to maximum of Rs.2 lacs for particular assessment year.

26. The interest on loan paid by the Government of India to a non-resident outside India is _____ in India.

- (A) Not taxable
- (B) Partially taxable
- (C) Taxable
- (D) Can't say

Answer: A

27. An individual is resident and ordinarily resident of India if _____.

- (A) Person had been resident in India at least 2 out of 10 previous years immediately preceding the relevant previous year
- (B) Person been in India for a period of 730 days or more during 7 years immediately preceding the relevant previous year
- (C) All of the above
- (D) None of the above

Answer: C

Explanation: Resident

A taxpayer would qualify as a resident of India if he satisfies one of the following 2 conditions:

1. Stay in India for a year is 182 days or more or
2. Stay in India for the immediately 4 preceding years is 365 days or more **and** 60 days or more in the relevant financial year

Resident and Ordinarily Resident

If an individual qualifies as a resident, the next step is to determine if he/she is a Resident ordinarily resident (ROR) or an RNOR. He will be a ROR if he meets both of the following conditions:

1. Has been a resident of India in at least 2 out of 10 years immediately previous years and
2. Has stayed in India for at least 730 days in 7 immediately preceding years

28. The Resident HUF is ordinarily resident in India, if _____.

- (A) He has been resident in India at least 2 years out of 10 previous years immediately
- (B) He has been resident in India at least 3 years out of 10 previous years immediately
- (C) He has been resident in India at least 2 years out of 5 previous years immediately
- (D) None of the above

Answer: A

29. Basic condition will be for a person who leaves India for employment _____.

- (A) At least 182 days in India
- (B) At least 60 days in previous year and 365 days in preceding 4 years
- (C) At least 730 days in preceding 7 years
- (D) All of the above

Answer: A

30. Set off of losses of the firms is covered under section

- (A) 72
- (B) 75
- (C) 77
- (D) 78

Answer: B

Explanation: Section 75. Where the assessee is a firm, any loss in relation to the assessment year commencing on or before the 1st day of April, 1992, which could not be set off against any other income of the firm and which had been apportioned to a partner of the firm but could not be set off by such partner prior to the assessment year commencing on the 1st day of April, 1993, then, such loss shall be allowed to be set off against the income of the firm subject to the condition that the partner continues in the said firm and to be carried forward for set off under sections 70, 71, 72, 73, 74 and 74A.

31. The income from foreign companies by providing the services in project connected with security of India is _____ from tax liability.

- (A) 50% exempted
- (B) 20% exempted
- (C) 100% exempted
- (D) 55% exempted

Answer: C

Explanation: Any income by way of royalty or fees for technical services arising to any foreign company (as may be notified by the Central Government from time to time) under an agreement entered into with that Government for providing services in connection with security of India is exempt [Section 10(6C)].

32. An individual is said to be resident in India if _____.

- (A) It is in India in the previous year for a period of 182 days or more
- (B) It is in India for period of 60 days or more during the previous and 365 days or more during the four years immediately proceeding previous year
- (C) All of the above
- (D) None of the above

Answer: C

33. The HUF is said to be resident in India if _____.

- (A) The control and management of its affairs is wholly or partly situated in India
- (B) The control and management of its affairs is partially situated out of India
- (C) The control and management of its affairs is wholly or partly in out of India
- (D) None of the above

Answer: A

Explanation: A Hindu Undivided Family (HUF) is said to be resident in India if the control and management of its affairs are wholly or partly situated in India. (ii) he has been in India for a period of 730 days or more during 7 years immediately preceding the relevant year.

34. The awards and rewards are exempted from Income Tax if _____.

- (A) Payment is in cash
- (B) Payment is in kind
- (C) Payment is in cash or in kind
- (D) None of the above

Answer: C

Explanation: When it comes to awards, they are considered to be tax-free if they are approved by the Government of India. The taxability of awards depends on the reason why the award was given, who is giving the award and whether the award was approved by the Central or the State Government. If the award is given in public interest and is approved by the Government, it would be considered tax-free under Section 10 (17A) of the Income Tax Act. The Indian Government has a list of awards which are completely tax-free in the hands of the awardee.

35. Under Section 15 of Income Tax Act, the salary due in previous years and even if it is not received is _____.

- (A) Taxable
- (B) Not taxable
- (C) Partially taxable
- (D) None of the above

Answer: A

Explanation: Any salary due from an employer or a former employer to an assessee in the previous year, whether paid or not; Section 15 states that salary should be taxed whenever it is due or paid, whichever is earlier.

36. The assesses can claim relief under _____ for arrears or advance salary.

- (A) Section 89(1)
- (B) Section 89(2)
- (C) Section 89(3)
- (D) Section 89(4)

Answer: A

Explanation: If you have received any portion of your 'salary in arrears or in advance', or you have received family pension in arrears, you are allowed some tax relief under section 89(1). For a taxpayer, tax liabilities for a Financial Year are calculated from the income earned during that year.

37. The Payment of Gratuity Act came into force in _____.

- (A) 1973
- (B) 1980
- (C) 1991
- (D) 1972

Answer: D

Explanation: The Payment of Gratuity Act was passed by the Parliament of **India** on 21 August 1972 and it came in force from 16 September 1972.

38. Gift to employee up to _____ p.a. will not be treated as perquisite taxable in the hands of employee.

- (A) ₹4,000
- (B) ₹5,000
- (C) ₹10,000
- (D) ₹2,500

Answer: B

Explanation: Gift or vouchers received by employees or by member of his household on ceremonies or occasions are taxable perquisites in the hands of the employees. However, if the value of such gifts in totality do not exceed Rs. 5,000/- then such gifts are not taxable as perquisite in the hands of the employees.

39. Expenditure on free meals to employee in excess of _____ per meal will be treated as perquisite of employee.

- (A) ₹25
- (B) ₹50
- (C) ₹100
- (D) ₹55

Answer: B

Explanation: If the employer provides free or concessional food and/ or beverages such as tea, coffee etc., then the benefits so received by the employee are taxable as perquisites in the hands

of the employee. However, if the following are provided by the employer then they are not taxable in the hands of employees as perquisites:

1. Free food and beverages such as tea, coffee etc. provided by the employer to an employee during working hours at office or business premises less than Rs. 50/- per meal.
2. Vouchers provided having value less than Rs. 50/- per meal
3. Tea or Snacks provided during working hours
4. Free food and beverages such as tea, coffee etc. provided during working hours provided in a remote area or an offshore installation.

40. Any commission due or received by a partner of a firm from the firm shall not be regarded as salary income under _____.

- (A) Section 15
- (B) Section 20
- (C) Section 17
- (D) Section 19

Answer: A

Explanation: Explanation 2 of section 15 says that "Any salary, bonus, commission or remuneration, by whatever name called, due to, or received by, a partner of a firm from the firm shall not be regarded as "salary".

41. Surcharge is levied at the rate _____ if the income exceeds Rs. 1 crore of the financial year 2018-19.

- (A) 10%
- (B) 12%
- (C) 15%
- (D) 20%

Answer: C

Explanation: Explanation: Under Income Tax Law, presently for Assessment Year 2019-20 (Financial Year 2018-19), in case of an individual, a surcharge of 10% applies if income is more than Rs. 50 lakh but does not exceed Rs. 1 crore in a financial year. A surcharge is levied at 15% if income exceeds Rs 1 crore in a financial year.

42. For computation for Income tax liability for individual, the Education Cess is _____.

- (A) 3%
- (B) 4%
- (C) 2.5%
- (D) 2%

Answer: B

Explanation: Health and Education cess at the rate of 4 per cent will be added to the income tax liability in all cases. Individuals having taxable income of up to Rs 5 lakh will be eligible for tax rebate under section 87A up to Rs 12,500, thereby making zero tax payable in the new

tax regime.

43. Mr. Ram owns a house property. He lent it to Laxman at ₹ 10,000 p.m. Laxman sublet it to Mr. Maruti on monthly rent of ₹20,000 p.m. Rental income of Laxman is taxable under the head _____.

- (A) Income from Salary
- (B) Income from Other Sources
- (C) Income from House Property
- (D) Income from Business

Answer: B

44. An individual who transfers house property without an adequate consideration to his owner spouse or to minor child is called as _____.

- (A) Co-owner
- (B) Deemed Owner
- (C) Owner Himself
- (D) None of the above

Answer: B

Explanation: Section 27. 1) An individual who transferred his property without adequate consideration to his or her spouse (otherwise than in connection with an agreement to live apart) his minor child (not being married daughter) is deemed to be owner of that property.

45. Mr. X is employed in ABC Ltd. getting basic pay 20,000 p.m., dearness allowance 7,000 p.m. and half of the dearness allowance forms the part of salary for the purpose of retirement benefits. The employer has paid bonus @ 500 p.m., commission @ 1% on the sales turnover of 20 lakhs. The employer paid him house rent allowance 6,000 p.m. Employee has paid rent 7,000 p.m. and was posted at Agra. Compute his tax liability for the assessment year 2019-20.

- (A) Rs.18,200
- (B) Rs.64,800
- (c) Rs.2,40,000
- (D) Nil

Answer. A

| | |
|---|-----------------|
| Explanation: Computation of Gross Salary Basic Pay (20,000 x 12) | Rs. 2,40,000.00 |
| Dearness Allowance (7,000 x 12) | Rs.84,000.00 |
| Bonus (500 x 12) | Rs.6,000.00 |
| Commission (1% of 20,00,000) | Rs.20,000.00 |
| House rent allowance {Sec 10(13A) Rule 2A} [W. Note -1] | Rs.18,200.00 |
| Gross Salary | Rs.3,68,200.00 |

Least of the following is exempt:

1. House Rent allowance received 72,000
2. Rent paid over 10% of retirement benefit salary(84,000 – 30,200) = 53,800
3. 40% of retirement benefit salary = 1,20,800

(Retirement benefit salary = 2,40,000 + 42,000 + 20,000 = 3,02,000)

Received = 72,000

Exempt = 53,800

Taxable = (72000-53800) = Rs. 18,200

46. Calculate the Gross Annual Value from the following details: Municipal Value Rs. 45,000

Fair rental value Rs.50,000 Standard Rent Rs.48,000 Actual Rent Rs.42,000

(A) Rs.50,000

(B) Rs.48,000

(C) Rs.45,000

(D) Rs.42,000

Answer. B

Explanation: Step- I: MV and FR whichever is higher, subject to standard rent ₹ 48,000

Step II: Actual rent received ₹42,000

GAV will be higher between Step I and Step II ₹48,000 (as there is no unrealised rent and loss due to vacancy)

47. Which of the following is not a case of deemed ownership of house property?

(A) Transfer to a spouse for inadequate consideration

(B) Transfer to a minor child for inadequate consideration

(C) Holder of an importable estate

(D) Co-owner of a property

Answer. D

Explanation: A deemed owner is an owner by implication, although he may not be the owner in the real sense of the word. However, such a person is treated as an owner and is liable to tax in the same manner any owner. An individual who gifts property to his spouse or minor child will be treated as the deemed owner of that property.

48. Rent from House Property let out by an assessee to his employees when such letting is incidental to his main business will be chargeable to tax under head _____.

(A) Profit and Gain from Business and Profession

(B) Income from Capital Gain

(C) Income from House Property

(D) All of the above

Answer. A

Explanation: Property used for the purpose of business or profession

Where letting out is subservient and incidental to the main business, rental income will not be charged to tax under this head. Income from property rented to the employees will not be charged to tax under this head.

49. When annual value of one-self occupied house is nil, the assesses will be entitled to the standard deduction of _____.

- (A) 10%
- (B) 20%
- (C) Nil
- (D) None of the above

Answer. C

Explanation: Where the house property owned by co-owners is self-occupied by each of the co-owners, the annual value of the property of each co-owner will be Nil and each co-owner shall be entitled to a deduction of ₹30,000 / ₹2,00,000, as the case may be, under section 24(b) on account of interest on borrowed capital.

50. Gross annual value shall be higher of _____.

- (A) Expected rent
- (B) Actual rent received or receivable
- (C) All of the above
- (D) None of the above

Answer. C

Explanation: In India, the Gross Annual value is the current value, the actual rent (whether received or receivable) or the fair rental value, whichever is highest or which the property might be expected to attract on the open market in ideal circumstances where there is neither a glut nor a shortage of accommodation.

The following four factors are taken into consideration while determining the GAV of a property:

1. The rent payable by the tenant (actual rent)
2. The municipal valuation of the property
3. The fair rental value (market value of a similar property in the same area)
4. The standard rent payable under the Rent Control Act

51. Income from property held under trust for charitable or religious purposes is _____.

- (A) Exempted from tax
- (B) Taxable @ 10%
- (C) Taxable @ 20% .
- (D) None of the above

Answer. A

Explanation: Income from Property held under Trust wholly for Charitable or Religious Purposes [Section 11(1)(a)]:

Income derived from property held under trust, wholly for charitable and religious purposes, shall be exempt—

1. to the extent such income is applied in India for such purposes; and
2. where any such income is accumulated or set apart for application to such purposes in India, to the extent to which the income so accumulated or set apart is not in excess of 15% of the income from such property.

52. Mr. Anup owns a house property. Municipal value ₹ 1,80,000, Fair Rent ₹ 1,35,000 and Standard Rent ₹ 1,65,000. It is let out throughout the previous year for ₹ 10,000 p.m. up to December 31, 2018 and ₹ 16,500 p.m. thereafter. Find out the Gross Annual Value for the Assessment Year 2018-19.

- (A) ₹1,80,000
- (B) ₹1,65,000
- (C) ₹1,55,500
- (D) None of the above

Answer. B

Explanation: Step I: MV and FR whichever is higher, subject to standard rent ₹ 1,65,000

Step II: Actual rent received ₹1,39,500

GAV will be higher between Step I and Step II ₹1,65,000 (as there is no unrealised rent and loss due to vacancy)

53. If an asset is put to use for less than 180 days in the previous year, the depreciation is charged at _____ rate.

- (A) 30%
- (B) 50%
- (C) 25%
- (D) Nil

Answer. B

Explanation: Depreciation in the year in which asset is purchased

If asset is put to use for less than 180 days then amount equal to 50% of the amount calculated using normal depreciating rates is allowed as depreciation.

54. Deduction for bad debt is allowed to assessee carrying on business in the year in which the debt is _____ as bad.

- (A) Accrual Basis
- (B) Written Basis
- (C) All of the above
- (D) None of the above

Answer. B

Explanation: Sub-section (2) of section 36 of the Act, stipulates that a deduction for a bad debt or part thereof shall not be allowed unless (a) the debt has been taken into account in computing the income of the assessee of the previous year in which the amount of such debt or part thereof is written off

55. Under Section 44AB, specified date means _____ of the assessment year.

- (A) 31st March
- (B) 1st April
- (C) 30th September
- (D) None of the above

Answer: C

Explanation: Any person covered u/s 44AB should get the accounts audited before the due date of filing the return of income. The **due is on or before 30th September of the relevant assessment year.**

56. Income chargeable under the head 'Profits and Gains from Business or Profession' is covered under _____.

- (A) Section 23
- (B) Section 28
- (C) Section 25
- (D) Section 24

Answer: B

Explanation: Under section 28, the following income is chargeable to tax under the head "Profits and gains of business or profession": profits and gains of any business or profession; any compensation or other payments due to or received by any person specified in section 28(ii)

57. The coffee is grown, cured and further processed, then the tax liability for the agricultural income is _____.

- (A) 60% agricultural and 40% non-agricultural
- (B) 50% agricultural and 50% non-agricultural
- © 40% agricultural and 60% non-agricultural
- (D) 65% agricultural and 35% non-agricultural

Answer: A

Explanation:

| Particulars of business | Agricultural (Exempt) portion | Non-agricultural (Taxable) portion |
|--|-------------------------------|------------------------------------|
| Growing & Manufacturing of coffee grown, cured, roasted and grounded | 60% | 40% |

58. If the agricultural land is used for tea plantation, then the tax liability is _____.

- (A) 65% agricultural and 35% non-agricultural
- (B) 50% agricultural and 50% non-agricultural
- © 70% agricultural and 30% non-agricultural
- (D) 60% agricultural and 40% non-agricultural

Answer: D

59. A income by way of rent of agricultural land is _____.

- (A) Business income
- (B) Agricultural Income
- (C) Income from Other Sources
- (D) Casual Income

Answer: C

60. The deduction of life insurance premium, contribution to provident fund, etc. will is done under _____ of Income Tax Act, 1961.

- (A) Section 80C
- (B) Section 80U
- (C) Section 80D
- (D) Section 80E

Answer: A

Explanation: Section 80C: Life Insurance Premium- Eligible Amount & Deduction. Life Insurance Plans are very popular as a tool to get deduction under section 80C of the Income Tax Act, 1961. The investment in life insurance can be deducted up to Rs 1,50,000.

61. Gross Total Income is arrived after _____.

- (A) Only adding Income under five heads of Income
- (B) Adding Income under five heads of Income excluding losses
- (C) Adding Income under five heads of Income, after applying clubbing provisions and making adjustment of set off and carry forward of losses
- (D) Adding Income under five heads of Income, after applying clubbing provisions and making adjustment of set off and carry forward of losses and after allowing deduction under sections 80C to 80U

Answer: C

Explanation: Apart from adding earnings from all five heads of income following shall also be added to calculate your gross total income

- Income to be added as per the clubbing provisions under the Income Tax Act
- Adjustments for set off and carry forward of losses

62. In Income Tax Act, 1961, deduction under sections 80C to 80U cannot exceed _____.

- (A) Gross total income
- (B) Total income
- (C) Income from business or profession
- (D) Income from house property

Answer: A

63. The maximum aggregate amount of deduction under sections 80C, 80CCC and 80CCD cannot exceed _____.

- (A) Rs.1,10,000
- (B) Rs.2,00,000
- (C) Rs.1,50,000
- (D) Nil

Answer: C

Explanation: Under section 80C of the income tax, you are eligible to claim deductions up to Rs. 1, 50,000 on your taxable income from tax-saving instruments and investments. An individual or Hindu Undivided Family (HUF) is eligible to claim deductions under this section.

64. Deduction in respect of contribution to political party will _____.

- (A) Be allowed in respect of sum paid by way of cash
- (B) Not be allowed if payment made in cash
- (C) This type of deduction is not allowed whether payment is in cash or not
- (D) Be allowed if payment made in cash, subject to certain conditions

Answer: B

Explanation: Any donation to political parties made by an Individual can be claimed as a deduction under the section 80GGC of the I-T Act. A deduction can be claimed under section 80G only when the contribution is made to specified funds and institutions either via cheque or cash.

65. Maximum amount of deduction in case of a person with severe disability under section 80U will be _____.

- (A) Rs.1,25,000
- (B) Rs.75,000
- (C) Rs.80,000
- (D) Rs.1,00,000

Answer: A

Explanation: A deduction of Rs. 75,000 is allowed for people with disabilities, and Rs. 1,25,000 deduction for people with severe disability.

66. As per Section 207, _____ not having any income from business or profession is not liable to pay advance tax.

- (A) A resident individual who is of the age of below 60 years
- (B) A resident HUF
- (C) A non resident individual
- (D) A resident senior citizen

Answer: D

Explanation: According to Section 207 of the Act, a resident senior citizen (an individual of age 60 years or more) who does not have any income from business or profession is not liable to pay advance tax.

67. The authority for advance ruling in income-tax is appointed by –

- A. The President of India
- B. The Central Board of Direct Taxes
- C. The Central Government
- D. The Chief Commissioner of Income-tax

Answer: C

68. Tax planning is:

- A. Unlawful
- B. Unethical
- C. Not within the framework of law
- D. None of the above

Answer: D

Explanation: Tax planning is the analysis of a financial situation or plan from a tax perspective. The purpose of tax planning is to ensure tax efficiency. Through tax planning, all elements of the financial plan work together in the most tax-efficient manner possible.

69. Mr X deposits ₹ 1,00,000 in PPF a/c to claim deduction under section 80C. It is –

- A. Tax planning
- B. Tax evasion
- C. Tax management
- D. Tax avoidance

Answer: A

Explanation: Public Provident Fund taxability, PPF tax benefit under Section 80C: Taxpayers can claim deductions up to Rs 1.5 lakh under Section 80C of the Income Tax Act

70. The basic objectives of tax planning is

- A. Reduction of tax liability
- B. Minimization of litigation
- C. Productive investment
- D. All of the above

Answer: D

Explanation: Tax planning objectives

The main objectives of tax planning are as follows:

- Reduction of tax liability

The government's objective is to maximise the tax deposited by the citizens. Authorities often come up with legal ways to ensure that you pay the maximum tax possible. But there are ways to save yourself money while remaining ethical and within legal boundaries. To do so, you should try to find a break route between the probable transactions and the analysed tax applicable.

- Productivity

Tax planning can be used to ensure that funds from taxable sources are diverted to income-generating plans. The main aim is to use productive investment planning to come up with the most beneficial tax saving options.

- Minimal litigation

You never want to face legal litigations in your attempt at reducing your tax burden. Tax planning comes in to ensure that precautions are taken to avoid any possibility of litigation afterwards.

- Growth with the economy

A business can grow with the economy so long as the right measures to ensure finance growth are taken. Generally, the tax planner should make the effort of ensuring that one's business money takes the right direction for circulation.

- Economic stability

The economic stability of a nation benefits everyone, including the taxpayer. Tax planning ensures that all legally-due taxes are paid on time. This is how a productive economy is created.

71. Permissive tax planning is –

- A. Objective of tax planning
- B. Area of tax planning
- C. Type of tax planning
- D. None of the above

Answer: C

Explanation: Permissive tax planning refers to the plans which are permissible under various provisions of the law, for example planning of earning income covered by Section 10, Section 10(1), planning of taking advantage of various deductions, incentives for getting benefit of different tax concessions etc

72. An exercise undertaken to minimize tax liability through the best use of all available allowances, deductions, exclusions, exemptions, etc. to reduce income-tax liability is known as –

- A. Tax evasion
- B. Tax planning
- C. Tax avoidance
- D. Tax dodging

Answer: B

Explanation: Tax planning is the analysis of a financial situation or plan from a tax perspective. The purpose of tax planning is to ensure tax efficiency. Through tax planning, all elements of the financial plan work together in the most tax-efficient manner possible.

73. Source rule of taxation provides that income is to be taxed :-

- A. In the country of residence of taxpayer
- B. In the country in which such income originates
- C. Both A and B
- D. None of the above

Answer: B

Explanation: As per the source rule under the Indian domestic tax law, it is sufficient if the income-generating activities are performed in India. In that case, the income is regarded as (actually) arising in India and, hence, taxable in India.

74. Residence rule provides that income is to be taxed in the country: -

- A. Where the recipient of income is a resident
- B. Where it originates
- C. Both A and B
- D. None of the above

Answer: A

Explanation: Generally, a person is subject to tax on global income in the resident country. Further, where the income is doubly taxed, the benefit of avoiding double taxation i.e., either by credit method or exemption method, can be claimed in the country of ultimate residency.

75. Double taxation relief could be: -

- A. Bilateral Relief
- B. Unilateral Relief
- C. Multilateral Relief
- D. Both A and B

Answer: D

Explanation: The Government has tried to reduce the burden of assessee by providing them relief under Double Taxation. 2 types of reliefs have been provided under Double Taxation.

- **Unilateral Relief**
- **Bilateral Relief**

76. Bilateral relief means a relief in which: -

- A. Home country of the taxpayer provides tax relief, where no mutual agreement has been entered into by the two countries for providing relief from double taxation
- B. Governments of two countries, enter into an agreement to provide relief against double taxation on mutually agreed basis
- C. Both A and B
- D. None of the above

Answer: B

77. Unilateral relief means a method of providing relief from double taxation in which: -

- A. Home country of the taxpayer provides tax relief, where no mutual agreement has been entered into by the two countries for providing relief from double taxation
- B. Governments of two countries, enter into an agreement to provide relief against double taxation on mutually agreed basis
- C. Both A and B
- D. None of the above

Answer: A

78. Bilateral relief could be provided by way of: -

- A. Credit Method
- B. Exemption Method
- C. Both A and B
- D. None of the above

Answer: C

Explanation: U/s 90 there are two methods of granting relief under **Double Taxation Avoidance Agreement**.

1) Exemption method – A particular income is taxed in one of the both countries and exempted in the other country. (For example- For the Income from Dividend, Interest, royalty and fees for technical services source rule is applicable in treaty with Greece, Libyan and United Arab Republic. So for a citizen of these 3 countries if the dividend, interest, royalty or fees for technical services is arising in India, then it will be solely taxable in India only and if for a resident if such income is arising in any of these 3 countries then the income will solely be taxed in these 3 countries and it will not be at all taxable in India).

2) Tax Credit method- The income is taxed in both the countries as per the treaty and the country of residence will allow the tax credit / reduction for the tax charged in the country of source. For example- Mr A (an Indian resident) has received salary from a US company for job in US. Since Mr A is a resident so his global Income will be taxable. In this case source country is US (since the service has been rendered in US) and resident country is India. So at the time of computation of tax liability of Mr A the tax paid in US will be allowed as set off against his total tax liability but limited to the tax payable on such foreign income at Indian tax rates.

79. Where an assessee is eligible to claim the DTAA benefit :-

- A. Provisions of DTAA shall apply to the assessee
- B. Provisions of Income-Tax Act shall apply to the assessee
- C. Provisions of DTAA or Income-Tax Act, whichever is more beneficial, shall apply to the assessee
- D. None of the above

Answer: C

Explanation: Form 10F must be verified by the government of the country in which the assessee is a resident for the period applicable. It is a declaration that the assessee resided in the foreign country which is covered under a DTAA with India and hence, the tax rate applicable to the income is at the rate mentioned in the DTAA.

80. Double taxation relief for incomes taxed in the countries with which no agreement exists is governed by –

- A. Section 91
- B. Section 89
- C. Section 93
- D. None of the above.

Answer: A

Explanation: Section 91. (1) If any person who is resident in India in any previous year proves that, in respect of his income which accrued or arose during that previous year outside India (and which is not deemed to accrue or arise in India), he has paid in any country with which there is no agreement under section 90 for the relief or avoidance of double taxation, income-tax, by deduction or otherwise, under the law in force in that country, he shall be entitled to the deduction from the Indian income-tax payable by him of a sum calculated on such doubly taxed income at the Indian rate of tax or the rate of tax of the said country, whichever is the lower, or at the Indian rate of tax if both the rates are equal.

81. Relief under Section 91 can be granted to –

- A. Resident
- B. Non resident
- C. Resident and Non-Resident
- D. None of the above

Answer: A

Explanation: Section 91. (1) If any person who is resident in India in any previous year proves that, in respect of his income which accrued or arose during that previous year.

82. Which of the following incomes is deemed to accrue or arise in India?

- A. Income from any business connection in India.
- B. Income from a property in India.
- C. Income through transfer of capital asset situated in India.
- D. All of these.

Answer: D

Explanation: Income deemed to accrue or arise in India has different categories of Incomes within its ambit. They are as follows:

Any income accruing or arising to an assessee in any place outside India whether directly or indirectly-(a) through or from any business connection in India,

(b) through or from any property in India,

(c) through or from any asset or source of income in India

(d) through the transfer of any capital asset in India.

2) Income which falls under the head “Salaries”; if it is earned in India.

3) Income from “Salaries” which is payable by Government to a citizen of India for services rendered outside India.

4) Dividend by an Indian Company outside India

5) Interest

6) Royalty

7) Fees for technical Services

83. Which of the following incomes is not deemed to accrue or arise in India?

- A. Income from any business connection in India.
- B. Income from a salary for services rendered in India.
- C. Income situated through transfer of capital asset outside India.
- D. Dividend paid by an Indian company outside India.

Answer: C

84. Long term capital Gains are chargeable to tax @ _____

- A. 10%
- B. 15%
- C. 20%
- D. 30%

Answer: C

Explanation: The **long-term capital gain tax rate** is usually calculated at 20% plus surcharge and cess as applicable. There are also special cases when an individual is charged at 10% on the total capital gain; these situations include –

- I. Long-term capital gains earned by selling listed securities of more than Rs. 1,00,000. It is in accordance with the Section 112A of the Income Tax Act of India.
- II. Returns earned by selling securities listed on a recognised stock exchange in India, zero-coupon bonds, and any Mutual Funds or UTI that was sold on or before 10th July 2014.

85. Short term capital gains arising on transfer of listed equity shares through recognized stock exchange are chargeable to Tax @ _____

- A. 10%
- B. 15%
- C. 20%
- D. 30%

Answer: B

Explanation: The tax implications on short term capital gains can be illustrated in the table below –

| Condition | Rate of Taxation |
|---|---|
| When transaction tax is based on securities | 15% (plus surcharge and applicable cess) |
| In cases where transaction tax is not based on securities | These STCGs are added during the filing of income tax returns and taxed according to income tax slabs |

86. Calculate the amount of rebate u/s 87 A in case of a resident individual having total income of Rs. 3, 00,000. For A.Y 2018-19

- A. Rs. 30,000
- B. Rs.10,000
- C. Rs. 2,500
- D. Rs. 5,000

Answer: C

Explanation: Rebate u/s 87A for Previous Years.

| Financial Year | Limit on Total Taxable Income | Amount of rebate allowed u/s 87A* |
|----------------|-------------------------------|-----------------------------------|
| 2018-19 | Rs. 3,50,000 | Rs. 2,500 |

87. The income-tax payable by a XYZ Inc a foreign company on total income of Rs. 12,25,500 will be :

- A. Rs. 5,09,800
- B. Rs. 5,04,906
- C. Rs. 3,78,520
- D. Rs.3,78,525

Answer: A

Explanation: b) Foreign Company

| Income range | Tax rate | Surcharge* |
|---|----------|------------|
| Up to Rs. 1,00,00,000 | 40% | Nil |
| More than Rs. 1,00,00,000 but, Less than Rs. 10,00,00,000 | 40% | 2% |
| More than Rs. 10,00,00,000 | 40% | 5% |

88. Surcharge of 15% is payable by an Hindu Undivided Family where the total income exceeds:

- A. Rs.7,50,000
- B. Rs.8,50,000
- C. Rs.1,00,00,000
- D. None of the three.

Answer: C

Explanation: Surcharge:

Rs. 50 Lakhs to Rs. 1 Crore Rs. 1 Crore to Rs. 2 Crores

10%

15%

89. In case of resident HUF, what is maximum exemption limit for Assessment Year 2019-20:

- A. Rs. 3,00,000
- B. Rs. 2,50,000
- C. Rs. 5,00,000
- D. Rs. 2,20,000

Answer: B

90. In case of a female individual, who is of 59 years of age, what is the maximum exemption limit for AY? 2019-20:

- A. Rs. 3,00,000
- B. Rs. 2,50,000
- C. Rs. 5,00,000
- D. Nil

Answer: B

91. The income-tax payable by a Resident Individual (aged 30 years) for AY. 2019-20 if his total income is Rs.3,00,000 will be:

- A. Rs. 2,600
- B. Rs. 2,210
- C. Rs. 2,206
- D. Nil

Answer: D

Explanation: **Resident Individuals & Non-Resident Indians**

Under existing rules of the Income Tax Act, 1961, resident Indian and non-resident Indians (NRIs) are taxed according to the same tax slabs and rates. The following are the IT slabs and slab rates for AY 2019-20 in case of resident and non-resident Indians aged less than 60 years:

| Income Threshold | Tax rate applicable |
|---------------------------|---|
| Up to ₹ 2,50,000 | NIL |
| ₹ 2,50,001 to ₹ 5,00,000 | 5% on income exceeding Rs. 2.5 lakh (max. Rs. 12,500) |
| ₹ 5,00,001 to ₹ 10,00,000 | 20% on income exceeding Rs. 5 lakh (max. Rs. 1 lakh) + Rs. 12,500 |
| Over ₹ 10,00,000 | 30% on income exceeding Rs. 10 lakh + Rs. 1 lakh + Rs. 12,500 |

Additional Components

1. Surcharge: In case income is more than ₹ 50 lakhs and less than ₹ 1 crore, the surcharge is applicable at a rate of 10% of the income tax. For income, more than ₹ 1 crore, a surcharge of 15% is applicable on income tax on the amount exceeding ₹ 1 crore.
2. Health and Education Cess: "Education Cess" and "Secondary and Higher Education Cess" will be replaced by "Health and Education Cess" at the rate of 4%, on the amount of tax computed, inclusive of surcharge.

3. The interim budget 2019 has provisioned to provide a full tax rebate to individuals having a net taxable income (income adjusted after eligible tax deductions) upto Rs 5lakhs. It means that the maximum tax rebate provided under section 87A has been increased from Rs. 2,500 to Rs. 12,500. Individuals having net taxable income upto Rs. 5lakhs can claim the tax rebate under 87A and thus effectively pay zero tax.

92. If a firm's total Income is Rs.50,10,000, the marginal relief available to the firm is –

- A. Rs. 3,900
- B. Rs. 3,3000
- C. Rs. 3,000
- D. None of these.

Answer: C

Explanation: The purpose of marginal relief is to ensure that the amount of tax payable including surcharge does not exceed the amount of income which exceeds the prescribed threshold. For example, if the income of the individual is more than Rs. 50 Lakhs, marginal relief will be applicable. This will ensure that income tax payable (inclusive of surcharge) on Rs. 50 Lakhs does not exceed the amount by which the individual's income exceeds Rs. 50 Lakhs.

The same can be understood with the help of following example in which **income of an individual is Rs. 50.1 lakhs:**

Since the income of the individual is more than Rs. 50 Lakhs but less than Rs. 1 crores, the individual will be liable for surcharge @ 10%. Calculation of tax liability inclusive of surcharge is as follows:

| | |
|--|------------------|
| Total Income | 50,10,000 |
| Tax on total income as per slab rate (excluding surcharge) | 13,15,500 |
| Surcharge @ 10% | 1,31,550 |
| Total Tax payable (inclusive of surcharge) | 14,47,050 |

In case, the tax payable if the amount of income was Rs. 50 Lakhs would be Rs. 13,12,500 (before surcharge). Thus it can be seen that when the income is increased by Rs. 50,000., tax liability increased by Rs. 1,34,550. To prevent such a situation, the provision of marginal relief is provided to the tax payers.

Calculation of Marginal Relief

Continuing from the above example, following steps show the calculation of Marginal relief:

Step 1: Calculation of income tax and surcharge: In this case, as calculated above, the income tax inclusive of surcharge on Rs. 50,10,000 is Rs. 14,47,050.

Step 2: Compare additional income and incremental tax:

Incremental salary = 50,10,000 – 50,00,000 = Rs. 10,000

Incremental Tax = 14,47,050 (income tax inclusive of surcharge on 50,10,000) – 13,12,500 (Income tax on 50,00,000) = 1,34,550

In this case, since incremental tax (1,34,550) is more than incremental income (10,000), the assessee is eligible for Marginal Relief. The total incremental tax inclusive of surcharge will be restricted to Rs. 10,000 based on the concept of marginal relief.

Step 3: Calculation of Surcharge taking into account marginal relief:

In this case, total income is Rs. 50,10,000 on which income tax excluding surcharge is Rs. 13,15,500. If the total income would have been Rs. 50 lakhs, income tax would have been calculated as Rs. 13,12,500. Hence, the incremental income tax (excluding surcharge) is Rs. 3,000 (Rs. 13,15,500 – Rs. 13,12,500).

Since the incremental income tax inclusive of surcharge can be maximum Rs. 10,000 and Rs. 3,000 is consumed in incremental income tax, maximum amount of surcharge will be limited to Rs. 7,000 (10,000 – 3,000).

Hence calculation of income tax including surcharge shall be as follows:

| | |
|--|------------------|
| Total Income | 50,10,000 |
| Tax on total income as per slab rate (excluding surcharge) | 13,15,500 |
| Add: Surcharge after taking marginal relief into consideration | 7,000 |
| Tax payable after giving effect of marginal relief | 13,22,500 |

However, it is to be noted that in case the incremental income tax inclusive of surcharge does not exceed the amount by which income exceeds the limits prescribed, the above calculation shall not be applicable and normal calculation of income tax shall apply.

93. The amount of **health and education cess** to be collected along with income-tax for assessment year **2019-20** shall be

- A. 1 %
- B. 2%
- C. 3%
- D. 4%

Answer: D

Explanation: It is levied on Personal income tax and Corporation tax. According to Budget 2018, the existing 3% Education cess will be replaced by a 4% 'Health & Education Cess'. It means this 4% rate will be applicable from FY 2018-19 / AY 2019-20.

94. Section 70-79 deals with _____.

- A. Salary
- B. Capital gain
- C. Clubbing of income
- D. Set off and carry forward

Answer: D

Explanation: **Set off** or **Carry Forward** and **Set off** of Losses [Sections 70 to 80] If the losses could not be **set off** under the same head or under different heads in the same assessment year, such losses are allowed to be **carried forward** to be claimed as **set off** from the income of the subsequent assessment years.

95. Income from horse race falls under the head _____.

- A. Salary
- B. Other sources
- C. Profession
- D. Business

Answer. B

Explanation: Income from Other Sources is one of the heads of income chargeable to tax. Any income that is not covered in the other four heads of income is taxable under. puzzles, races (including horse race), gambling or betting of any kind;

96. Deduction can be claimed for amount deposited under Suganya Samridhi Account under_____.

- A. 80 CC
- B.80 C
- C.80 DD
- D.80 D

Answer: B

Explanation: Your investments towards Sukanya Samriddhi Yojana are eligible for tax deductions under Section 80C of the **Income Tax** Act. Deductions of up to ₹1.5 lakhs are allowed. Should you choose to invest ₹1.5 lakh in the scheme in a given financial year, the entire investment will become tax-deductible.

97. Deduction on interest on loan taken for studies fall under _____.

- A. 80 CC
- B. 80 C
- C. 80 E
- D. 80 D

Answer: C

Explanation: The **interest** paid on the education **loan** can be claimed as **deduction**, as per Section 80E of the Income Tax Act of India, 1961. The **deduction** amount **under** Section 80E is only the **interest** paid on the **loan taken** for higher **studies**.

98. Clubbing of income means _____.

- A. Addition income of two partners
- B. Inclusion of income of other person in assessee income
- C. Total of income of various heads
- D. Collection of income

Answer: B

Explanation: The situation in which the income of another person is included in the income of the taxpayer is called clubbing of income. For example: If the income of your spouse is included in your total income and also taxed in your hand, then this is known as clubbing of income.

99. Minors income is clubbed to _____.

- A. Father' s income
- B. Mother 's income
- C. Father's income or mother's income whichever is greater
- D. Both mother's and father's income

Answer: C

Explanation: As per section 64(1A) , income of minor children is clubbed with the income of that parent whose income (excluding minor's income) is higher. In this case, Mrs. Raja is not having any income and, hence, if any income is to be clubbed then it will be clubbed with the income of Mr. Raja.

100. Payment of LIC premium can be claimed as deduction u/s _____.

- A. 80 C
- B. 80 CCC
- C. 80 D
- D.80 DD

Answer: A

Explanation: Life insurance premium payments can be claimed as deduction under Section 80C subject to a maximum limit of Rs. 1,50,000. The only condition is the premium must be less than 10% of the sum assured.



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