Skillshort

Self-Study Preparation Pack

CS EXECUTIVE

Paper 4: Corporate Accounting and Financial Management (CAFM)

Chapter-wise Practice Questions with Answers

Quick-check MCQs for all 19 lessons (a self-test only – the CS Executive paper is fully descriptive) and exam-style numericals and theory with model answers · All figures verified in Python · Companies Act, AS and Ind AS as amended up to 31 May 2026

35 quick-check MCQs | 17 descriptive questions | Formula first, then figures

Contents

How to use this set	2	1. Introduction to Accounting	2
2. Corporate Accounting and Schedule III	2	3. Accounting Standards	2
4. Share Capital and Debentures	3	5. Buy-back, ESOP and Related Aspects	4
6. Consolidation of Accounts	4	7. Financial Statement Analysis	5
8. Cash Flows	5	9. Forecasting Financial Statements	6
10. FM and Time Value of Money	6	11. Capital Budgeting	7
12. Cost of Capital	7	13. Capital Structure and Leverage	7
14. Dividend Decisions	8	15. Working Capital Management	8
16. Security Analysis	9	17. Operational Decisions (CVP)	9

This subject pack has 6 parts

1 Chapter-wise notes | 2 Important topics & weightage | 3 Past papers: trends & links

4 Mock tests + solutions | 5 Chapter practice questions | 6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICSI publication. Items marked VERIFY should be checked against the latest official material.

How to use this set

EXAM TIP **Do the MCQs first as a recall check (1 minute each). Then write each descriptive answer in full – working notes, formula, figures, conclusion – in about 9 minutes for 5 marks. Mark any question you get wrong and redo it two days later.**

1. Introduction to Accounting

1. Under the accrual concept, revenue is recognised when:

(a) cash is received
(b) it is earned and measurable, whatever the time of receipt
(c) the invoice is paid
(d) the year ends

2. Which is a real account?

(a) Rent
(b) Debtors
(c) Machinery
(d) Capital

2. Corporate Accounting and Schedule III

3. Under Schedule III, an asset is current if it is expected to be realised within:

(a) 6 months
(b) 12 months or the operating cycle
(c) 18 months
(d) 24 months

4. Proposed dividend after the reporting date is:

(a) provided as a liability
(b) disclosed in the notes
(c) debited to reserves
(d) ignored

QUESTION **State five key features of Schedule III to the Companies Act, 2013. (5 marks)**

SOLUTION **Answer**

(1) **Vertical format** for the balance sheet and statement of profit and loss; (2) assets and liabilities split into **current and non-current**; (3) **"Equity"** shows share capital and other equity, with a statement of changes in equity under Division II; (4) **notes** give detailed break-ups (share capital reconciliation, shareholders holding more than 5%, promoters' shareholding, ageing of receivables and payables, CWIP ageing, ratios); (5) **rounding-off** rules by turnover; (6) Division I for AS companies, Division II for Ind AS companies, Division III for NBFCs. Additional disclosures added in 2021 cover crypto assets, benami property, wilful defaulter status and analytical ratios.

3. Accounting Standards

5. Under AS 16, a qualifying asset normally takes how long to get ready?

(a) 3 months
(b) 6 months
(c) 12 months or more
(d) 24 months

6. Research expenditure under AS 26 is:

(a) capitalised
(b) expensed when incurred
(c) amortised over 10 years
(d) treated as goodwill

QUESTION **Mehta Ltd. borrowed ₹10 lakh at 12% on 1 April 2025 specifically for a building. The building was ready for use on 31 December 2025. Income from temporary investment of the loan was ₹20,000. Compute the borrowing cost to be capitalised. (5 marks)**

SOLUTION **Answer**

Interest for the construction period = 10,00,000 × 12% × 9/12 = ₹90,000

Capitalised = 90,000 − 20,000 = **₹70,000**

Interest for January–March 2026 (₹30,000) is expensed, as capitalisation stops when the asset is ready for use (AS 16).

4. Share Capital and Debentures

7. Shares forfeited and re-issued at a discount: the maximum discount is:

(a) 10% of face value
(b) the amount forfeited on those shares
(c) the premium
(d) unlimited

8. Securities premium cannot be used for:

(a) issue of fully paid bonus shares
(b) writing off preliminary expenses
(c) payment of dividend
(d) premium on redemption of debentures

9. Debenture Redemption Reserve is required for:

(a) listed companies
(b) NBFCs
(c) unlisted companies other than NBFCs and HFCs
(d) all companies

QUESTION **Vista Ltd. issued 2,00,000 shares, underwritten X 60% and Y 40%, with firm underwriting X 10,000 and Y 5,000 shares. Marked applications: X 70,000, Y 50,000; unmarked 40,000 (excluding firm applications). Compute each underwriter's liability, treating firm applications as marked. (5 marks)**

SOLUTION Answer

Particulars	X	Y	Total
Gross liability	1,20,000	80,000	2,00,000
Less marked + firm	(80,000)	(55,000)	(1,35,000)
Balance	40,000	25,000	65,000
Less unmarked (60 : 40)	(24,000)	(16,000)	(40,000)
Net shortfall	16,000	9,000	25,000
Add firm underwriting	10,000	5,000	15,000
Total shares to take	**26,000**	**14,000**	**40,000**

Check: public applications 1,60,000 + 40,000 = 2,00,000 ✓.

QUESTION Write a short note on issue of bonus shares with proforma entries. (5 marks)

SOLUTION Answer

Bonus shares are fully paid shares issued free to existing members by **capitalising** free reserves, securities premium or capital redemption reserve (s.63). Conditions: authorised by articles; approved in general meeting; no default on deposits, debt securities or employee dues; partly paid shares made fully paid; not in lieu of dividend; implemented within **2 months** of Board approval (listed companies – SEBI ICDR) VERIFY.

Capitalisation = General reserve / Securities premium / CRR A/c Dr; To Bonus to shareholders A/c

Allotment = Bonus to shareholders A/c Dr; To Equity share capital A/c

5. Buy-back, ESOP and Related Aspects

10. The maximum buy-back under s.68 in a year (equity) is:

(a) 10% of shares (b) 25% of paid-up equity capital
(c) 50% of free reserves (d) unlimited

11. On buy-back out of free reserves, an amount equal to the nominal value is transferred to:

(a) general reserve (b) capital redemption reserve
(c) securities premium (d) profit and loss

QUESTION What conditions must a company meet to issue ESOPs? (5 marks)

SOLUTION Answer

(1) **Special resolution** of members (s.62(1)(b)); (2) the explanatory statement discloses total options, eligible employees, exercise price, vesting period (minimum **1 year**), exercise period, lock-in and the method of valuation; (3) options cannot be granted to **promoters or promoter group** or to **directors holding more than 10%** of shares (except start-ups for 10 years, as allowed) VERIFY; (4) options are **not transferable**; (5) the company discloses ESOP details in the Board's report; (6) listed companies follow the **SEBI (SBEB and Sweat Equity) Regulations, 2021** – a compensation committee and the scheme approved by special resolution.

6. Consolidation of Accounts

12. Non-controlling interest is presented:

(a) as a liability
(b) within equity, separately from the parent's equity
(c) as a deduction from assets
(d) in the notes only

13. Unrealised profit on goods sold by a subsidiary to the parent (upstream) is:

(a) ignored
(b) eliminated in full
(c) eliminated only to the extent of parent's share
(d) added to goodwill

QUESTION **What is required to consolidate a subsidiary that is an LLP or a partnership firm? (5 marks)**

SOLUTION **Answer**

Under s.129(3) and Explanation to the Rules, "subsidiary" includes an **associate and joint venture**; LLPs and firms controlled by the company are consolidated where control exists. Steps: (1) prepare their accounts on **uniform accounting policies** and the same reporting date (difference ≤ 6 months, with adjustments); (2) combine assets, liabilities, income and expenses line by line; (3) the parent's capital account and current account in the LLP are eliminated against its share of net assets – difference is goodwill or capital reserve; (4) the other partners' capital is shown as **NCI**; (5) eliminate intra-group balances and unrealised profits; (6) give the Form AOC-1 statement with the financial statements.

7. Financial Statement Analysis

14. Interest coverage ratio is:

(a) PAT ÷ interest
(b) EBIT ÷ interest
(c) EBITDA ÷ debt
(d) interest ÷ EBIT

15. DuPont ROE equals:

(a) NPM × asset turnover × equity multiplier
(b) ROA × debt ratio
(c) EPS × P/E
(d) NPM × payout

QUESTION **A Ltd.: net profit margin 10%, asset turnover 1.25, equity multiplier 1.6. B Ltd.: 8%, 1.5, 2.0. Compare ROE using DuPont and comment. (5 marks)**

SOLUTION **Answer**

ROE A = 10% × 1.25 × 1.6 = **20%**

ROE B = 8% × 1.5 × 2.0 = **24%**

B earns a higher ROE despite a lower margin because it uses its assets more efficiently and uses **more debt** (equity multiplier 2.0). A is more profitable per rupee of sales and carries lower financial risk.

8. Cash Flows

16. Under AS 3, dividend paid by a manufacturing company is:

(a) operating
(b) investing
(c) financing
(d) not shown

17. Depreciation in the indirect method is:

(a) deducted (b) added back
(c) shown in investing (d) ignored

QUESTION **EBIT ₹200 crore, tax 25%, depreciation ₹40 crore, capital expenditure ₹70 crore, increase in working capital ₹20 crore, interest ₹30 crore, net new borrowing ₹10 crore. Compute FCFF and FCFE. (5 marks)**

SOLUTION **Answer**

FCFF = EBIT(1 – t) + depreciation – capex – ΔWC = 150 + 40 − 70 − 20 = **₹100 crore**

FCFE = FCFF – interest(1 – t) + net borrowing = 100 − 22.5 + 10 = **₹87.5 crore**

FCFF is discounted at WACC to value the firm; FCFE at the cost of equity to value equity.

9. Forecasting Financial Statements

18. External funds needed rise when:

(a) the payout ratio falls (b) sales growth rises
(c) the profit margin rises (d) spontaneous liabilities rise

19. Sustainable growth rate equals:

(a) ROE × retention ratio (b) ROA × payout
(c) EPS ÷ DPS (d) NPM × payout

QUESTION **Explain the components and factors of financial forecasting. (5 marks)**

SOLUTION **Answer**

Components: (1) sales forecast – the starting point; (2) projected income statement; (3) projected balance sheet (percentage-of-sales method); (4) cash budget; (5) external funds needed. **Factors:** economic conditions and industry trends; company's past performance; capacity and capital expenditure plans; credit and dividend policies; competition and pricing; regulatory and tax changes; inflation and interest rates. With ROE 15% and retention 60%, the sustainable growth rate is 15% × 60% = **9%** – growth above this needs outside funds.

10. FM and Time Value of Money

20. The Rule of 72 at 9% gives a doubling period of:

(a) 6 years (b) 8 years
(c) 9 years (d) 12 years

21. The primary objective of financial management is:

(a) profit maximisation
(b) sales maximisation
(c) shareholders' wealth maximisation
(d) cost minimisation

QUESTION **Rita invests ₹2,00,000 at the end of each year for 5 years at 10%. Compute the maturity value. Also give the doubling period at 9% by the Rule of 72 and the Rule of 69. (5 marks)**

SOLUTION **Answer**

FVA = 2,00,000 × [(1.10)^5 − 1] ÷ 0.10 = 2,00,000 × 6.1051 = **₹12,21,020**

Rule of 72 = 72 ÷ 9 = **8 years**

Rule of 69 = 0.35 + 69 ÷ 9 = **8.02 years** (for continuous compounding; more accurate)

11. Capital Budgeting

22. A project with IRR above the cost of capital has:

(a) negative NPV
(b) positive NPV
(c) zero NPV
(d) PI below 1

23. Which method ignores the time value of money?

(a) NPV
(b) IRR
(c) traditional payback
(d) PI

QUESTION **Outlay ₹1,00,000; inflows ₹30,000, ₹40,000, ₹50,000, ₹20,000; cost of capital 10% (DF 0.909, 0.826, 0.751, 0.683). Compute payback and NPV. (5 marks)**

SOLUTION **Answer**

Payback = 2 years + 30,000 ÷ 50,000 = **2.6 years**

PV of inflows = 27,270 + 33,040 + 37,550 + 13,660 = 1,11,520

NPV = 1,11,520 − 1,00,000 = **₹11,520** → accept

12. Cost of Capital

24. Cost of debt is reduced by tax because:

(a) debt is risky
(b) interest is tax-deductible
(c) principal is deductible
(d) of SEBI rules

25. Under CAPM, Ke =:

(a) Rf + β(Rm − Rf)
(b) D1/P0
(c) Rm − Rf
(d) β × Rm

QUESTION **D0 ₹4; growth 6%; share price ₹53. Also, 10% preference shares of ₹100 issued at ₹95, redeemable at par after 5 years. Compute Ke and Kp. (5 marks)**

SOLUTION **Answer**

Ke = D1 ÷ P0 + g = 4 × 1.06 ÷ 53 + 6% = 8% + 6% = **14%**

Kp = [10 + (100 − 95) ÷ 5] ÷ [(100 + 95) ÷ 2] = 11 ÷ 97.5 = **11.28%**

13. Capital Structure and Leverage

26. Under the NOI approach, the value of the firm:

(a) rises with debt
(b) is independent of capital structure
(c) falls with debt
(d) depends on dividends

27. Degree of combined leverage =:

(a) DOL + DFL
(b) DOL × DFL
(c) DOL ÷ DFL
(d) EBIT ÷ EBT

QUESTION **Under MM with corporate tax, an unlevered firm has EBIT ₹20 lakh and cost of equity 16%; tax 25%. A similar firm has ₹40 lakh of debt. Compute both values. (5 marks)**

SOLUTION **Answer**

Vu = EBIT(1 – t) ÷ Ke = 15 ÷ 0.16 = **₹93.75 lakh**

VL = Vu + tD = 93.75 + 0.25 × 40 = **₹103.75 lakh**

The levered firm is worth more by the **tax shield on debt**.

14. Dividend Decisions

28. Under Walter's model, a growth firm (r > Ke) should have:

(a) 100% payout
(b) 0% payout
(c) 50% payout
(d) any payout

29. MM dividend irrelevance assumes:

(a) taxes on dividends
(b) perfect capital markets
(c) flotation costs
(d) uncertainty

QUESTION **State the factors that affect a company's dividend policy. (5 marks)**

SOLUTION **Answer**

(1) **Legal** – s.123 (dividend only out of profits after depreciation; transfer to reserves optional); (2) **stability of earnings**; (3) **liquidity** – cash, not profit, pays dividends; (4) **growth and investment needs**; (5) **access to capital markets**; (6) **shareholders' preference and tax** – dividends are taxable in their hands; (7) **debt covenants**; (8) **inflation**; (9) **control** – retained earnings avoid dilution; (10) signalling effect.

15. Working Capital Management

30. The operating cycle equals:

(a) RM + WIP + FG + debtors – creditors periods
(b) debtors – creditors
(c) inventory + debtors
(d) cash ÷ sales

31. At EOQ:

(a) ordering cost exceeds carrying cost
(b) ordering cost equals carrying cost
(c) carrying cost is zero
(d) total cost is maximum

QUESTION **Maximum usage 600 units a week, normal usage 400; lead time 4–6 weeks (normal 5). Compute the re-order level and minimum level, and explain safety stock. (5 marks)**

SOLUTION **Answer**

Re-order level = maximum usage × maximum lead time = 600 × 6 = **3,600 units**

Minimum level = ROL − normal usage × normal lead time = 3,600 − 2,000 = **1,600 units**

Safety stock is the buffer held to avoid stock-outs from uncertain demand or delivery; it costs carrying cost but avoids lost sales and idle production. It is set where the carrying cost of extra stock equals the expected stock-out cost saved.

16. Security Analysis

32. RSI above 70 usually signals:

(a) oversold
(b) overbought
(c) neutral
(d) bankruptcy

33. Beta measures:

(a) total risk
(b) systematic risk
(c) unsystematic risk
(d) liquidity risk

QUESTION **Over 14 sessions, average gain ₹12 and average loss ₹8. Compute RSI. Covariance of a share with the market is 0.012 and market variance 0.01 – compute beta. (5 marks)**

SOLUTION **Answer**

RS = 12 ÷ 8 = 1.5; RSI = 100 − 100 ÷ (1 + 1.5) = **60** (neutral zone)

Beta = 0.012 ÷ 0.01 = **1.2** – the share is 20% more volatile than the market

17. Operational Decisions (CVP)

34. BEP in units equals:

(a) fixed cost ÷ contribution per unit
(b) fixed cost ÷ selling price
(c) contribution ÷ fixed cost
(d) profit ÷ P/V ratio

35. With a limiting factor, rank products by:

(a) selling price
(b) contribution per unit of the limiting factor
(c) profit per unit
(d) variable cost

QUESTION **Fixed cost ₹3,00,000; selling price ₹50; variable cost ₹30. Compute BEP in units and the margin of safety at 20,000 units. (5 marks)**

SOLUTION **Answer**

BEP = 3,00,000 ÷ 20 = **15,000 units** (₹7,50,000)

Margin of safety = (20,000 − 15,000) ÷ 20,000 = **25%** (5,000 units)

Answer key with explanations

Q	Ans	Explanation / working
1	(b)	Accrual: record when earned or incurred, not when cash moves.
2	(c)	Real accounts are assets; rent is nominal; debtors and capital are personal.
3	(b)	Or held for trading, or unrestricted cash.
4	(b)	AS 4 (revised) and Ind AS 10 – not a liability at the reporting date.
5	(c)	A substantial period, normally 12 months or more.
6	(b)	Only development costs meeting the criteria are capitalised.
7	(b)	Excess of forfeited amount over discount goes to capital reserve.
8	(c)	s.52(2) lists permitted uses; dividend is not one.
9	(c)	Rule 18(7) – 10% of outstanding debentures.
10	(b)	And total ≤ 25% of paid-up capital + free reserves; debt-equity ≤ 2 : 1.
11	(b)	s.69.
12	(b)	AS 21 / Ind AS 110.
13	(b)	Eliminated in full; under Ind AS the NCI bears its share.
14	(b)	Times interest earned.
15	(a)	Three-step DuPont.
16	(c)	Interest and dividend received are investing.
17	(b)	Non-cash expense.
18	(b)	More growth needs more assets.
19	(a)	g = ROE × b.
20	(b)	72 ÷ 9.
21	(c)	Considers time value and risk.
22	(b)	Conventional cash flows.
23	(c)	Also ARR.
24	(b)	Kd = I(1 – t).
25	(a)	Security market line.
26	(b)	Ko constant.
27	(b)	Contribution ÷ EBT.
28	(b)	Retaining earns more than shareholders can.
29	(b)	No taxes, no costs, fixed investment policy.
30	(a)	Net operating cycle.
31	(b)	Total cost is minimum.
32	(b)	Below 30 – oversold.
33	(b)	Cov(i, m) ÷ Var(m).
34	(a)	Contribution per unit = SP − VC.
35	(b)	Key factor rule.