MEANING AND SCOPE OF ACCOUNTING

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Accounting can be viewed as an information system which has its input processing methods and output.

   True: Accounting is a process of identifying, measuring and communicating information to permit informed judgement and decisions. It covers the preparation of financial statements and communication to the users of accounts.

2. There is no difference between book keeping and accounting, both are same.

   False: Book-keeping and accounting are different from each other. Accounting is a broad subject. It calls for a greater understanding of records obtained from book-keeping and an ability to analyse and interpret the information provided by book-keeping records.

   Book-keeping is the recording phase while accounting is concerned with the summarizing phase of an accounting system.

3. Management Accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

   False: Financial accounting covers the preparation and interpretation of financial statements and communication to the users of accounts.

4. Financial accounting is concerned with internal reporting to the managers of a business unit.

False: Management accounting is concerned with internal reporting to the managers of a business unit.

5. Customers of business should not be considered as users of accounts prepared by business. They are not interested to know performance of the business

   False: Customers are also concerned with the stability and profitability of the enterprise because their functioning is more or less dependent on the supply of goods

6. Summarising is the basic function of accounting. All business transactions of a financial characters evidenced by some documents such as sales bill, pass book, salary slip etc. are recorded in the books of account.

   False: Recording is the basic function of accounting. Summarising is concerned with the preparation and presentation of the classified data in a manner useful to the internal as well as the external users of financial statements

7. Balance sheet shows the position of the business on the day of its preparation and not on the future date.

   True: Balance Sheet is a statement of the financial position of an enterprise at a given date.

8. Objectives of book-keeping are complete recording of transactions & ascertainment of financial effect on the business.

   True: Book-keeping is concerned with complete recording and combined effect of transactions made during the accounting period.

ACCOUNTING CONCEPTS, PRINCIPLES AND CONVENTIONS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1) The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

   True: The financial statement must disclose all the relevant and reliable information in accordance with the Full Disclosure Principle.

2) Accrual concept implies accounting on cash basis.

   False - Accrual concept implies accounting on 'due' or 'accrual' basis. Accrual basis of accounting involves recognition of revenues and costs as and when they accrue irrespective of actual receipts or payments.

3) The results and position disclosed by final accounts are not exact.

   True: They are prepared on the basis of assumptions, conventions, concepts and personal judgements of the person who prepare them.

4) The value of human resources is generally shown as assets in the Balance Sheet.

   False: The value of human resources cannot be measured in monetary terms, thus it will not be shown in the balance sheet.

5) Net income in case of persons practicing vocation is determined by preparing profit and loss account.

False: Net income is determined by preparing income and expenditure in case of persons practicing vacation.

6) The concept helps in keeping business affairs free from the influence of the personal affairs of the owner is known as the matching concept.

False: Under matching concept all expenses matched with the revenue of that period should only be taken into consideration. In the financial statements of the organization if any revenue is recognized then expenses related to earn that revenue should also be recognized.

7) Entity concept means that the enterprise is liable to the owner for capital investment made by the owner.

True: Since the owner invested capital, he has claim on the profits of the enterprise.

8) Accrual means recognition as money is received or paid and not of revenue and costs as they are earned or incurred.

False: Under accrual concept, the effects of transactions and other events are recognised on mercantile basis i.e., when they occur (and not as cash or a cash equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

9) The Conservatism Concept also states that no change should be counted unless it has materialized.

False: The Realisation Concept also states that no change should be counted unless it has materialised.

10) The concept of consistency implies non-flexibility as not to allow the introduction of improved method of accounting.

False: The concept of consistency does not imply non-flexibility as not to allow the introduction of improved method of accounting.

11) The materiality depends only upon the amount of the item and not upon the size of the business, nature and level of information, level of the person making the decision etc.

True: As per materiality principle, all the items having significant economic effect on the business of the enterprise should be disclosed in the financial statements.

ACCOUNTING POLICIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A concern proposes to discontinue its business from December 2020 and decides to dispose off all its plants within a period of 3 months. The balance sheet as on 31st December, 2020 should continue to indicate the plants at its historical costs as the assets will be disposed off after the balance sheet date. (Nov 2020)

   False: If the fundamental accounting assumption of going concern is not followed, then the assets and liabilities should be stated at realizable value not historical cost.

2. There is a single list of accounting policies, which are applicable to all enterprises in all circumstances.

   False: There cannot be single list of accounting policies, which are applicable to all enterprises in all circumstances. There would always be different policies chosen by different industries under different circumstances.

3. Selection of accounting policy doesn't impact financial performance and financial position of the business

   False: Accounting policy has big impact on value of items goes under financial statements, hence it impacts financial performance and financial position of the business.

4. A change in accounting policies should be made as and when business like to show result as per their choice.

   False: A change in accounting policies should be made in the following conditions:

   (a) It is required by some statute or for compliance with an Accounting Standard.

(b) Change would result in more appropriate presentation of financial statement.

5. Choosing FIFO or weighted average method for inventory valuation is selection of accounting policy.

   True: An enterprise may adopt FIFO or weighted average method for inventory valuation and the method selected for valuation is called an accounting policy.

6. Selection of an inappropriate accounting policy decision will overstate the performance and financial position of a business entity every time.

   False: It could understate/overstate the performance and financial position of a business entity.

ACCOUNTING AS A MEASUREMENT DISCIPLINE – VALUATION PRINCIPLES, ACCOUNTING ESTIMATES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. There are four generally accepted measurement bases.

   (i) Historical Cost; (ii) Current Cost;

   (iii) Realizable Value; (iv) Future Value.

   False: There are four generally accepted measurement bases .

   (i) Historical Cost; (ii) Current Cost;

   (iii) Realizable Value; (iv) Present Value.

2. Historical Cost means price paid at time acquisition.

   True: Historical cost means the acquisition price.

3. As per future value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.

   False: At Realisable value, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the assets in an orderly disposal.

4. At Present value, liabilities are carried at the value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

   False: Liabilities are carried at the present discounted value of future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

5. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Historical cost of machine is 20,00,000

False: Historical cost is ₹10,00,000.

6. ABC purchased a machinery amounting ₹ 10,00,000 on 1st April, 2001. On 31st March, 2020, similar machinery could be purchased for ₹ 20,00,000. Current cost of machine is ₹ 20,00,000

   True: Since similar machine is purchased at 20,00,000, the current cost of machine is ₹ 20,00,000

CAPITAL AND REVENUE EXPENDITURES AND RECEIPTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Amount paid to Management company for consultancy to reduce the working expenses is capital expenditure if the reduced working expenses will generate long term benefits to the entity. (Dec 2021)

   True: Amount paid to management company for consultancy to reduce the working expenses is capital expenditure as this expenditure will generate long-term benefit to the entity.

2. Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure. (May 2018)

   False: The Cinema Hall could not be started without license. Expenditure incurred to obtain the license is pre-operative expense which is capitalized. Such expenses are not revenue and amortized over a period of time.

3. Insurance claim received on account of plant and machinery completely damaged by the fire is a capital receipt. (Nov 2020)

   True: Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt as it is not obtained in course of normal business activities.

4. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt. (Jan 2021)

True: Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt because it has no effect on improvement of future capability of business in revenue generation.

5. Amount spent on the replacement of worn out part of machine is Capital Expenditure. (May 2022)

   False: Amount spent for replacement of any worn out part of a machine is revenue expense since it is a part of its maintenance cost.

6. Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure. (Nov 2018)

   False: Overhauling expenses for the engine of the motor car is incurred to get better fuel efficiency. These expenses will reduce the running cost in future and thus the benefit is in the form of a long-term advantage. So overhauling expenses should be capitalized.

7. Amount spent for the construction of temporary huts, which were necessary for construction of the Cinema House and were demolished when the Cinema House was ready, is capital expenditure. (May 2019)

   True: Since the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.

8. M/s. XYZ & Co. runs a cafe. They renovated. some of the old cabins. Because of this renovation some space was made free and number of cabins was increased from 15 to 18. The total expenditure incurred was ₹ 30,000 and was treated as a revenue expenditure. (Nov 2019)

False: Renovation of cabins increased the number of cabins. This has an effect on the future revenue generating capability of the business. Thus the renovation expense is capital expenditure in nature.

9. The nature of business is not an important criteria in separating an expenditure between capital and revenue.

   False: The nature of business is a very important criteria in separating an expenditure between capital and revenue. For example- For a trader dealing in furniture, purchase of furniture is revenue expenditure but for any other trade, the purchase of furniture should be treated as capital expenditure and shown in the balance sheet as asset.

10. Expenditure incurred for major repair of the asset so as to increase its productive capacity is Revenue in nature.

    False: Expenditure incurred for major repair of the asset so as to increase its productive capacity is capital in nature.

11. Amount spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the plaintiff's land is Capital Expenditure.

    False: Legal expenses incurred to defend a suit claiming that the firm's factory site belongs to the plaintiff is maintenance expenditure of the asset. By this expense, neither any endurable benefit can be obtained in future in addition to that what is presently available nor the capacity of the asset will be increased. Maintenance expenditure in relation to an asset is revenue expenditure.

12. Amount spent for replacement of worn out part of machine is Capital Expenditure.

False: Amount spent for replacement of any worn out part of a machine is revenue expense since it is part of its maintenance cost.

13. Legal fees to acquire property is Capital Expenditure.

    True: Legal fee paid to acquire any property is a part of cost of that property. It is incurred to possess the ownership right of the property and hence a capital expenditure.

14. Amount spent for the construction of temporary huts, which were necessary for construction of the cinema house and were demolished when the cinema house was ready, is Capital Expenditure.

    True: Since temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised

15. Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure. (Dec 2021)

    True: Repairs for the first time of an old building are incurred to put the building in usable condition. This is a part of the cost of building. Accordingly, this is a capital expenditure.

INDIAN ACCOUNTING STANDARDS

1. **A) STATE** WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. The Government of India in consultation with the ICAI decided to adopt IFRSs issued by the IASB.

   False : The Government of India in consultation with the ICAI decided to converge and not to adopt IFRSs issued by the IASB. The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders.

2. There are many beneficiaries of convergence with IFRSs such as the economy, investors, industry etc.

   True : Major beneficiaries of convergence with IFRS's are economy, investors and industry.

3. Ther Was no need to converge to global accounting standards.

   False : Since India is going global, there was huge demand of global standards for better comparison.

4. International Financial Reporting Standards (IFRSs) are considered a "rules-based" set of standards.

   False : International Financial Reporting Standards (IFRSs) are considered a "principles-based" set of standards.

5. Govt of India has taken IASB support to develop Ind AS standards.

False : Government of India has taken ASB support to develop Ind AS standards.

6. IASC stands for International Accounting Standards Council.

   False : IASC stands for International Accounting Standards Committee.

ACCOUNTING STANDARDS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Accounting standards are written policy documents issued by the expert accounting body or by the government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.

   True: Accounting standards are documents covering recognition, measurement, presentation and disclosure of accounting transactions and events in the financial statements.

2. Accounting standards can override the statute.

   False: Accounting standards can never override the statute. The standards are required to be framed within the ambit of prevailing statutes.

3. Difficulties in making choice between different treatments is one of the benefits of accounting standards.

   False: Difficulties in making choice between different treatments is one of the limitation of accounting standard.

4. Requirements for additional disclosures is limitation of accounting standards.

   False: Benefits of accounting standards are:

   - Standardisation of alternative accounting treatments
   - Comparability of financial statements
   - Requirements for additional disclosures.

5. ASB stands for Accounting standardisation benchmarking.

   False: ASB stands for Accounting standard Board.

6. There are no limitation to accounting standards.

   False: limitations of accounting standards

   - Difficulties in making choice between different treatments
   - Restricted scope

7. Accounting Standards for non-corporate entities in India are issued by the Central Government. (Jan 2021)

   False: Accounting Standards for non-corporate entities in India are issued by the Institute of Chartered Accountants of India (ICAI).

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. A contingent liability need not be disclosed in the financial statements.

   False: A Contingent liability is required to be disclosed unless possibility of outflow of a resource embodying economic benefits is remote.

2. A Provision fails to meet the recognition criteria.

   False: A contingent liability fails to meet the recognition criteria

3. A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent liability. (May 2022)

   False: A claim that an enterprise is pursuing through legal process, where the outcome is uncertain, is a contingent asset

4. When it is probable that the firm will need to pay off the obligation, this gives rise to Contingent liability.

   False: When it is probable that the firm will need to pay off the obligation, this gives rise to provision.

5. Present financial obligation of an enterprise, which arises from past event is termed as contingent liability.

   False: Present Financial obligation of an enterprise, which arises from past events is termed as liability

BASIC ACCOUNTING PROCEDURES - JOURNAL ENTRIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. In accounting equation approach, equity + Long-term liabilities = fixed asset + current assets – current liabilities.

   True: as per the modern accounting equation approach- it is the basic formula in the accounting process

2. In the traditional approach a debtor becomes receiver.

   False: In the traditional approach a debtor becomes giver

3. The rule of nominal account states that all expenses & losses are recorded on credit side.

   False: The rule of nominal account states that all expenses & losses are recorded on debit side

4. Journal proper is also called a subsidiary book.

   True: it is one of the book where in the book Where in the transactions not entered in the other books are entered in this book.

5. Capital account has a debit balance.

   False: Capital account has a credit balance.

6. Purchase account is a nominal account.

   True: as it is considered as an expense.

7. All the personal & real account are recorded in P&L A/c.

   False: All the personal & real account are recorded in balance sheet.

8. Asset side of balance sheet contains all the personal & nominal accounts.

   False: Asset side of balance sheet contains all the personal & real accounts.

9. Capital account is a personal account.

   True: as it is in the name of the proprietor who is bringing in the capital to the business

10. Journal is also known as the book of original entry.

    True: as the transactions are entered first in this book as a first hand record.

11. All the personal & real accounts are recorded in P&L A/c.

    False: All the personal & real account are recorded in balance sheet.

LEDGERS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A ledger is also known as the principal book of accounts.

   True: since it classifies all the amounts related to a particular account and then it is used as the base for preparing the Trial balance

2. Cash account has a debit balance.

   True: being an asset under the modern equation approach.

3. Posting is the process of transferring the accounts from ledger to journal.

   False: Posting is the process of transferring the balances from journal to ledger.

4. At the end of the accounting year, all the nominal accounts of the ledger book are balanced. (May 2022)

   False: At the end of the accounting year, a ll the nominal accounts of the ledger book are totaled and transferred to P&L A/c.

5. Ledger records the transactions in a chronological order.

   False: Ledger records the transactions in analytical order. But journal records the transactions in a chronological order.

6. If the total debit side is greater than the total of credit side, we get a credit balance.

   False: IF the total debit side is greater than the total of credit side, we get a debit balance as the opening balance.

7. *Ledger accounts of assets will always be debited when they are increased.*

   True: *the increase to an asset shall be debited since the original balance is also debit.*

TRIAL BALANCE

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Preparing trial balance is the third phase of accounting process.

   True: which forms the base for the preparation of the final accounts.

2. Trial balance forms a base for the preparation of Financial statements.

   True: yes only based on the Trial balance we can prepare the financial statements.

3. Agreement of Trial balance is a conclusive proof of accuracy.

   False: Agreement of Trial balance gives only arithmetical accuracy, there can still be errors in preparing the trail balance

4. A trial balance will tally in case of compensating errors.

   True: since compensating errors cancel out due to their compensating nature of the amounts, hence here is no problem in the Trial balance

5. A Trial balance can find the missing entry from the journal.

   False: A Trial balance cannot find the missing entry from the journal.

6. Suspense account opened in a trial balance is a permanent account.

   False: Suspense account opened in a trial balance is a temporary account

7. The balance of purchase returns account has a credit balance.

   True: as purchases is debited, any returns shall be credited (treated in opposite way)

8. A Tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.

   False: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.

SUBSIDIARY BOOKS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Transactions recorded in the purchase book include only purchases on credit transactions.

   True: since cash purchases are taken to the cash book , it is only credit transactions that are recorded in the purchases book

2. Transactions regarding the purchase of fixed asset are recorded in the purchase book.

   False: Transactions regarding the purchase of fixed asset are not recorded in the purchase book, only the credit purchases of goods are recorded in it.

3. Cash sales are recorded in the sales book.

   False: Credit sales are recorded in the sales book.

4. Subsidiary books are also known as the books of original entry.

   True: they are maintained as an alternate to the journal.

5. Bills receivable book is a subsidiary book.

   True: yes it is one of the subsidiary book

6. Return inward book is also known as purchase return book.

   False: Return inward book is also known as sales return book

7. Purchase of a second hand machinery will be recorded in purchase book.

   False: Purchase of a second hand machinery will not be recorded in purchase book

8. Total of sales return book is posted to the debit side of sales return account.

   True: since it is reduction from the total sales value, it is debited in the sales account

9. If the sales are on a frequent basis, the transactions are recorded in the sales book.

   True: yes when there are numerous transactions then there are subsidiary books like the sales book where there are recorded instead of regular journal entries

10. The debit notes issued are used to prepare Sales Return Book.

    False: The debit notes issued are used to prepare purchases return book

11. The Sales book is kept to record both cash and credit sales. (Jan 2021)

    False - The Sales book is a register specially kept to record credit sales of goods dealt in by the firm, cash sales are entered in the cash book and not in the sales book

12. Gauri purchased goods worth ₹75,800 at 5% trade discount and she paid half of the amount in cash. The amount appearing in the purchase book is ₹36,005.

    True: the trade discount is to be deducted from the total value of ₹ 75,800. The amount paid in cash includes cash purchases and only the credit purchase will be shown in the purchases book- 36,005 (72,010 x 50%).

13. Bills receivable and bills payable books are type of subsidiary books.

    True: Yes, they are types of subsidiary books which is alternate to the journals.

CASH BOOK

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Cash book is a subsidiary book as well as a principal book. (July 2021)

   True: since the balance is taken to the Trial balance

2. Two column cash book consists of two columns cash column & bank column.

   False: Two column cash book consists of two columns cash column & discount column

3. Discount column of cash book is never balanced. (Dec 2021)

   True: it is totalled and transferred to the discount allowed or received account

4. Contra entry is passed in a two column cash book.

   False: Contra entry is passed in a three column cash book in bank and cash columns

5. If the bank column is showing the opening balance on credit side, it is an overdraft.

   True: usually the debit side of opening balance shows a favorable balance, where there is unfavorable- overdraft then it should be shown on the credit side

6. A cash book records cash transactions as well as credit transactions.

   False: A cash book records only cash transactions.

7. Discount column of cash book records the trade discount.

   False: Discount column of cash book records the cash discount. Trade discount is not shown in the books of accounts.

8. The balance in petty cash book represents an asset.

True: The balance represents the cash physically in existence and is therefore an asset.

BANK RECONCILIATION STATEMENT

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.

   False : Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.

2. There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.

   True : These are the three broad categories.

3. Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.

   False : Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.

4. Debit balance in cash book is same as overdraft as per pass book.

   False : Debit balance as per cash book should be represented by credit or favourable balance in pass book.

5. Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.

   False : Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.

6. Overcasting of the debit side of the cash book is an example of a difference that is due to Error.

   True : Overcasting is an example of an error.

7. When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.

   True : Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.

8. The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.

   False : Bank charges should be added bank would have debited the charges.

9. When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets.

   True : Since, we don't know the causes of difference, matching the two statements is only efficient way to identify the difference.

10. While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.

False : Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.

11. Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000.

    True : Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.

12. Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.

    False : Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.

13. A cheque for ₹ 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of ₹ 50,000 from the balance in pass book.

    True: ₹ 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.

14. A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.

    True : It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book

15. Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation.

    True : Reconciliation statement can be prepared in either of the two formats.

16. The difference between cash book & pass book that relates to errors are those mostly made by bank.

    False : Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.

17. A cheque for ₹ 80,000 that was discounted from bank was dishonoured and the bank charged ₹ 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct ₹ 78,400 to reconcile with pass book.

    False : We need to deduct 81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.

18. Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.

    False : Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.

19. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.

True : *In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.*

20. *Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.*

False : *Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.*

21. *Bank reconciliation statement is prepared to arrive at the bank balance.*

False - Bank reconciliation statement is prepared to reconcile and explain the causes of differences between bank balance as per cash book and the same as per bank statement as on a particular date.

RECTIFICATION OF ERRORS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. The method of rectification of errors depends on the stage at which the errors are detected.

   True: there are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification

2. In case of error of complete omission, the trial balance does not tally.

   False: In case of error of complete omission, the trial balance tallies.

3. When errors are detected after preparation of trial balance, suspense account is opened.

   True: to balance the difference of balances in the trial balance.

4. When purchase of an asset is treated as an expense, it is known as error of principle.

   True: where the accounts being debited is principally incorrect it is termed as error of principle

5. Trial balance agrees in case of compensating errors.

   True: compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes.

6. When amount is written on wrong side, it is known as an error of principle.

   False: When amount is written on wrong side, it is known as an error of commission.

7. On purchase of furniture, the amount spent on repairs should be debited to repairs account.

   False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.

8. 'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.

   False: 'Profit & Loss adjustment account' is opened to rectify the errors detected in the next accounting period.

9. Rent paid to land lord of the proprietors house, must be debited to 'Rent account'.

   False: Rent paid to land lord of the proprietors house, must be debited to 'Drawings account'.

10. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. (May 2022)

    False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.

11. The rationale behind the opening of a suspense account is to tally the trial balance.

    False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.

12. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.(May 2018)

False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.

13. Purchase of office furniture & fixtures of ₹ 2,500 has been debited to general Expense Account. It is an error of omission. (Nov 2020)

    False; When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

14. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle. (May 2019)

    False: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

CONCEPT AND ACCOUNTING OF DEPRECIATION

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Increase in market value of a fixed asset is one of the reasons for depreciation being charged.

   False : It is the decrease in market value as one of the reasons for depreciation. Increase in market value may result in Revaluation.

2. Depreciation of an asset begins when it is available for use in the location & condition necessary for it to be capable of being operated.

   True : It is not necessary that the asset must be used to be depreciated, thus depreciation may start once it is brought in the location & condition required to be used.

3. Cost of property, plant and equipment includes purchase price, refundable taxes & import duties after deducting any discount or rebate.

   False : Non refundable taxes & duties form part of the cost.

4. Cost of fixed asset should also include Inauguration costs.

   False : Inauguration costs shouldn't be part of cost.

5. Depreciation is charged with a constant amount under straight line method and charged with a constant percentage under diminishing balance method.

   True : SLM method results in same amount and Declining method involves same rate of depreciation

6. In case an item of Property, Plant & Equipment is revalued, whole class of assets to which that asset being revalued belongs should be revalued.

   True : Revaluation should be done for the whole class of the asset

7. In case the carrying amount of an asset is decreased due to revaluation, such decrease should always be recognized in the Profit and Loss account.

   False : Any decrease in value of asset on account of revaluation should be first debited to Revaluation Reserve, if any, and then to Profit & Loss account

8. Akash purchased a machine for ₹ 12,00,000. Estimated useful life is 10 years and scrap value is ₹ 1,00,000. Depreciation for the first year using sum of the years digit method shall be ₹ 2,00,000.

   True : Sum of years digit method depreciation is calculated as 10/55 x (12,00,000 – 1,00,000) = 2,00,000

9. Depletion is the allocation of the cost of intangible assets such as patents and copyrights.

   False : Depletion relates to allocation of cost of natural resources

10. Providing for depreciation also helps in providing for accumulation of funds to facilitate the replacement at the end of its useful life.

    True : Depreciation being non cash expense reduces the distributable profits and hence facilitates replacement of asset when required.

11. If the equipment account has a balance of ₹ 12,50,000 and the accumulated depreciation account has a balance of ₹ 4,00,000, the written down value of same shall be ₹ 16,50,000.

False : WDV = ₹ 12,50,000 - ₹ 4,00,000 = ₹ 8,50,000

12. Sum of the years digit method is an example of accelerated method of charging depreciation.

    True : Higher depreciation is charged in earlier years under sum of the years digit method.

13. Over the life of an asset subject to depreciation, the accelerated method will result in less Depreciation Expense in early years and more depreciation in later years of its life.

    False : It is vice versa as under diminishing balance method; higher depreciation is charged in beginning

14. While depreciating Land cost, Straight line method shall give more depreciation than the written down value.

    False : Land is not depreciated

15. Provision for depreciation account is debited at the time of recording the depreciation on an asset.

    False : Provision for Depreciation account is credited while charging the depreciation.

16. If adequate maintenance expenditure is incurred with relation to running repairs of an asset, we need not charge any depreciation.

    False : Depreciation is allocation of the cost of an asset over its useful life. Regular repairs may be required during its life are expensed and depreciation has to be charged anyways.

17. When a property, plant or equipment is sold then provision for depreciation account is debited, asset account is credited and any gain or loss is recorded to profit and loss account.

True : At the time of sale of an asset, respective asset account is credited with provision for depreciation account being debited and any resulting gain or loss being charged to profit & loss account.

18. While calculating the depreciation as per diminishing balance method, the salvage value of the asset at the end of its life is reduced from its cost.

    False: Under diminishing balance method, salvage value is not considered initially as it assumes that at the end of the asset's life the remaining value shall be its salvage value.

19. Any change in the estimated useful life of an asset should be accounted for as a change in an accounting estimate in accordance with Accounting Standards.

    True : Any change in useful life of an asset is accounted for as a change in estimate.

20. Whenever any depreciable asset is sold during the year, depreciation is charged on it for that entire year.

    False : Whenever any depreciable asset is sold during the year, depreciation is charged on it for the period it has been used in the sale year.

21. Reducing balance method of depreciation is followed to have a uniform charge for depreciation and repairs and maintenance together.

    True: In the early periods of useful life of a fixed asset, repairs and maintenance expenses are relatively low because the asset is new. Whereas in later period, as asset becomes old, repairs and maintenance expenses increase continuously. Under written down value method, depreciation charged is higher in the initial period and reduces continuously in the later periods. Thus depreciation and repair and maintenance expenses become more or less uniform throughout the useful life of the asset.

22. Depreciation is a non-cash expense and does not result in any cash outflow. (Nov 2018)

True: Depreciation is a non-cash expense and unlike other normal expenditure (e.g. wages, rent, etc.) does not result in any cash outflow. Therefore depreciation is a non-cash expense and does not result in any cash outflow.

BILLS OF EXCHANGE AND PROMISSORY NOTES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Bills payable account is a nominal account.

   False: The bills payable account is a liability account that is disclosed in the balance sheet.

2. Promise to pay is included in a bill of exchange.

   False: Bill of exchange contains an order to pay the required amount and not a mere promise to pay.

3. Days of rebate are added to the due date to arrive at the maturity date.

   False: 3 Days of grace are added to the due date to arrive at the maturity date

4. There are always 2 parties to the bills of exchange.

   False: There can be more than 2 parties- namely the drawer, acceptor and the payee of the bill

5. Foreign bill is drawn in the country and payable outside the country.

   True: When a bill is drawn in the country and is payable outside the country it is termed as a foreign bill

6. Promissory note is different from that of a bill of exchange where the amount is paid by the maker in case of former and by the acceptor in the latter.

   True: In case of the promissory note, it the bill of exchange, the person accept the bill

7. Discount at the time of retirement of a bill is a gain for the drawee.

   True - Discount at the time of retirement of a bill is a gain for the drawee and loss for the drawer.

8. In case of bill of exchange, the drawer and the payee may not be the same person but in case of a promissory note, the maker and the payee may be the same person. (Nov 19

   False: The drawer and payee may be same person in case of bill of exchange whereas in promissory note maker and payee can't be same person

SALE OF GOODS ON APPROVAL OR RETURN BASIS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent out. (July 2021)

   False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

2. The customer retains the goods even after the expiry of the mentioned term, but this act does not confirm to sale of goods as there is no express consent given.

   False: As per the Sale of goods Act, when the goods are retained by the customer after the given time and no express intimation is given with regard to rejection- they are deemed sales.

3. At the end of the year- those goods on approval basis awaiting approval from the customer are shown as part of sales in the books of the seller.

   False: At the end of the accounting period- if there are goods sold on approval or return basis, without any information, then the accounting treatment s to reverse the same from the sales and to add it with the existing closing stock at cost price.

4. No entry needs to be passed in the books of the seller, when the customer rejects the goods awaiting approval after the closing of the books of the seller.

   True: At the end, already the entries pertaining to the reversal of the sale and the addition to the closing stock would have been passed. If subsequently if the customer rejects the goods, no further entry needs to be passed

5. The period within which the customer has to reject or accept is fixed by the buyer.

   False: It is the seller who fixes the terms of the period within which the customer has to get back with the answer of rejection or accepting the goods

6. Mere transfer of the possession of the goods from the seller to the customer under sale on approval basis, also ensure transfer of ownership to customer.

   False: Only upon accepting the goods expressly or doing some act, inconsistent with the title of goods, the ownership and risk associated with the goods pass on to the buyer. Mere transfer of possession does no convey ownership.

7. Goods sold on approval or return basis are not recorded as credit sales initially when they are sent-out.

   False: They are recorded as sales irrespective of whether the customer might accept or reject the goods at the end of the period given for the approval.

CONSIGNMENT

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Value of the abnormal loss is debited to the consignment account

   False: The abnormal loss is credited to the consignment account since it is a reduction in the value of the stock. Alternatively it can be credited to the trading account of the consignor too as there is reduction from the stock of the goods.

2. Sales account and account sales are one and the same.

   False: The sales account shows the balance receivable on account of the sales- both cash and credit. Whereas the account sales statement is given by the consignee to the consignor on a periodical basis detailing the transactions done by the former.

3. The consignment stock is at the risk of the consignor.

   True: The consignor is the owner of the goods sent on consignment. Consignee is a mere agent appointed to sell the goods for a commission and the mere transfer of possession does not entitle consignee to become the owner of the goods.

4. Normal commission is paid to the consignee to bear the risk of the bad debts on sale of the consigned stock.

   False: The del-credere commission is the commission paid to the consignee for bearing the loss of the bad debts if any.

5. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him. (Dec 2021)

True: It is the consignor who has to record the closing stock of the consigned goods since he is the owner of the goods. There is no entry passed in the books of the consignee.

6. Consignment account is a representative personal account.

   False: It is a nominal account recording the expenses on the debit and the income on the credit side, balance being the profit/ loss on the consignment account to the trading account.

7. Proforma invoice is sent by the consignee to the consignor giving details about the stock of goods sent on consignment and their cost, invoice price, etc.

   False: Proforma invoice is given by the consignor to the consignee with regard to the goods sent on consignment and their price.

8. The bad debts in case of del credere commission shall be debited to the Consignment account

   False: If del credere commission is given to the consignee then, the bad debts are taken into the accounts of the consignee. It will not appear in the consignment account.

9. Abnormal loss is created out of uncontrollable situations and circumstances.

   False: Abnormal loss occurs due to unforeseen circumstances, but if necessary steps are taken they can be controlled, it is only the natural loss which cannot be controlled since it occurs due to nature of the product

10. The relationship between the consignor and his consignee is that of a seller and a buyer.

    False: The relationship between the consignor and the consignee is that of a principal and agent. It is mere arrangement for sale of goods on behalf of the consignor.

11. The additional commission to the consignee who agrees to bear the loss on account of bad debts is called overriding commission.

    False: The additional commission to the consignee who agrees to bear the loss on account of bad debts is called del credere commission.

12. In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods. (May 2019)

    False: In Consignment sale, ownership of the goods rests with the consignor till they are sold by the consignee. The consignee does not become the owner of the goods even though goods are in his possession. He acts only as agent of the consignor.

13. A limited is sending goods costing ₹ 50,000 to B limited on consignment basis. The accountant of A limited is of the opinion that these goods should be sent a sale invoice (Nov 2020)

    False; Goods sent on consignment basis should be sent under a proforma invoice not a sale invoice.

14. Consignee will not pass any journal entry in his books at time of receiving of goods from consignor. (Jan 2021)

    True; Consignee is not concerned when goods are consigned to him or when the consignor incurs expenses. He is concerned only when he sends an advance to the consignor, makes a sale, incurs expenses on the consignment and earns his commission. He does not pass any entry in his books at the time of receiving goods from consignor.

15. Consignment account is of the nature of real account.

    False: Consignment account is a nominal-cum-personal account.

16. If del-creders commission is paid to consignee, the loss of bad debts is to be borne by the consignor. (Nov 2018)

    False: To increase the sale and to encourage the consignee to make credit sales, the consignor provides an additional commission generally known as del-credere commission. In case del-credere commission is provided to consignee, bad debts is no more the loss of the consignor and it is borne by the consignee.

INVENTORIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. Inventories are stocks of goods and materials that are maintained for mainly the purpose of revenue generation.

   True: Inventories refers to stocks of goods and materials that are maintained in business for revenue generation.

2. A building is considered inventory in a construction business.

   True: For a construction business a building under construction will be inventory. The building is being built in the normal course of business and will eventually be sold as well as inventory.

3. Inventory is valued as carrying cost less percentage decreases.

   False: Inventory is valued at lower of cost or net realizable value.

4. Management has daily information about the quantity and valuation of closing stock under Physical Inventory System.

   False: Under Perpetual Inventory System management have daily information of closing stock.

5. Periodic Inventory System is more suitable for small enterprises.

   True: A periodic inventory system is suitable to small and micro enterprises, where physical counting of inventory is not a tedious process.

6. When closing inventory is overstated, net income for the accounting period will be understated.

   False: When closing inventory is overstated, net income for the accounting period will be overstated.

7. Closing inventory = Opening inventory + Purchases + Direct expenses + Cost of goods sold.

   False: Closing stock = Cost of goods sold - (Opening inventory + Purchases + Direct expenses).

8. Cost of inventories should comprise all cost of purchase.

   False: Cost of inventories should comprise all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

9. Costs of conversion of inventories include costs directly related to the units of production. They include allocation of fixed overheads only.

   False: Costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable overheads.

10. Abnormal amounts of wasted materials, labour or other production overheads expenses are included in the costs of inventories.

    False: Abnormal amounts of wasted materials, labour or other production overheads expenses are generally not included in the costs of inventories.

11. Perpetual system requires closure of business for counting of inventory.

    False: Periodic system requires closure of business for counting of inventory.

12. Periodic inventory system is a method of ascertaining inventory by taking an actual physical count.

True: Under Periodic inventory system actual physical count of inventory is taken of all the inventory on hand at a particular date.

13. The value of ending inventory under simple average price method is realistic as compare to LIFO.

True: Value of Closing stock as per average method is more realistic then LIFO.

14. The value of stock is shown on the assets side of the balance-sheet as fixed assets.

False: The value of stock is shown on the assets side of the balance-sheet as current assets.. As it is realisable within 12 months.

15. Under inflationary conditions, FIFO will not show lowest value of cost of goods sold.

False: Under inflationary conditions, LIFO and weighted average will not show lowest value of cost of goods sold.

16. Under LIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.

False: Under FIFO, valuation of inventory is based on the assumption that costs are charged against revenue in the order in which they occur.

17. Valuation of inventory, at cost or net realisable value, whichever less, is based on the principle of Conservatism. (Nov 2019)

True: The conservatism concept states that one shall not account for anticipated profits but shall provide all prospective losses. Valuing inventory at cost or net realisable value whichever is less, therefore is based on principle of Conservatism.

18. Finished goods are normally valued at cost or market price whichever is higher.

    False: Finished goods are normally valued at cost or market price whichever is lower.

19. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory. (July 2021)

    False: Warehousing costs related to finished goods are expensed when incurred and are not included in inventory costs unless storage is incurred for getting the inventory ready for sale i.e. until and unless storage is required as a part of process of production of inventory like in case of wine.

AVERAGE DUE DATE

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. The specific due date excludes the addition of grace days to arrive at the due date. (May 2022)
2. Payment made before the average due date entitles rebate to the customer.
3. Average due date results in loss to the party making the payment.
4. It is always the date of any transaction which is considered as base date.
5. Interest has to be paid by the party making payment exactly on the average due date.
6. Where the due date is a Public holiday and the preceding day is a sudden holiday, then the due date falls on the day preceding the sudden holiday.

Answer :

1. **True:** Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.
2. **True:** The rebate is given to the customers who make payment early to the average due date calculate.
3. **False:** It is single weighted average date calculated in such a way that it does not create any profit / loss to both the parties involved.
4. **False:** The date of the earlier or most initial transaction that is considered as the base date for the purpose of arriving at the average due date.
5. **False:** If payment made on the average due date, then there is no need to pay interest or provide rebate as it is a date resulting in no profit/loss to either parties.

6. **True:** *This can be understood from the foll ex- where August 15th is the due date, then the revised due date is 14th- which is considered as sudden holiday, then the due date becomes 13th (preceding working day).*

Account current

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. In Account Current, Red Ink Interest is treated as negative interest.

   True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of Account Current. This Red Ink Interest is treated as negative interest.

2. There are two ways of preparing an account current (May 2018, Jan 2021)

   False: There are three ways of preparing an Account Current: (i)With help of interest table; (ii) By means of products and (iii) By means of products of balances.

3. The problem of red-ink interest arises when the due date of a transaction falls after the closing date of account current.

   True: No interest is allowed when the due date of a bill falls after the date of closing the account. However, interest from the date of closing to such due date is written in 'Red Ink' in the appropriate side of account current.

4. In case the due date of a bill falls after the date of closing the account, the interest from the date of closing to such due date is known as Red-Ink interest. (May 2019)

   True: In case the due date of a bill falls after the date of closing the account, then no interest is allowed for that. However, interest from the date of closing to such due date is written in "Red-Ink" in the appropriate side of the 'Account current'. This interest is called Red-Ink interest.

FINAL ACCOUNTS OF MANUFACTURING ENTITIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. By-products valued at cost or net realisable value whichever is lower.

   False: By-products generally have insignificant value as compared to the value of main product. Therefore, they are generally valued at net realizable value.

2. The manufacturing account is prepared to ascertain the profit or loss on the goods produced.

   False: The objective of preparing Manufacturing Account is to determine manufacturing costs of finished goods for assessing the cost effectiveness of manufacturing activities.

3. If there remain unfinished goods at the beginning and at the end of the accounting period, cost of such unfinished goods is shown in the Manufacturing Account.

   True: Manufacturing account deals with the raw material, and work in progress.

4. Raw Material Consumed = Opening inventory of Raw Materials + Purchases – Closing inventory of Raw Materials.

   True: Raw Material consumed is arrived at after adjustment of opening and closing inventory of raw materials and purchases.

5. The Trading Account will show the quantities of finished goods, raw materials and work-in-progress.

   False: The Trading Account will show the quantities of finished goods manufactured and sold and the opening and closing inventory. It will not show the quantity of raw materials or work-in-progress.

6. Overhead is defined as total cost of direct material, direct wages and direct expenses.

   False: Overhead is defined as total cost of indirect material, indirect wages and indirect expenses.

FINAL ACCOUNTS OF NON-MANUFACTURING ENTITIES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. The income statement shows either net profit or net loss for a particular period.

   True: Profit and loss account shows either net profit or net loss for a particular period.

2. Gains from the sale or exchange of assets are not considered as the revenue of the business.

   False: Gains from the sale or exchange of assets are considered as the revenue of the business. But this revenue not in the ordinary course of business so it is capital receipts.

3. The salary paid in advance is not an expense because it neither reduces assets or nor increase liabilities.

   True: The salary paid in advance is an asset it is not an expense because it neither reduces assets or nor increase liabilities.

4. A loss is an expenditure which does not bring any benefit to the concern.

   True: A loss is an expenditure of the business which does not bring any gain to the business.

5. All liabilities which become due for payment in one year are classified as long-term liabilities.

False: All liabilities which become due for payment in one year are classified as current liabilities.

6. The term current asset is used to designate cash and other assets or resources which are reasonably expected to be realized or sold or consumed within one year.

   True: Current assets are all the assets which are expected to be realized or sold or consumed within one year.

7. An asset gives rise to expenditure when it is acquired and to an expense when it is consumed.

   True: When an asset is purchase capital expenditure is incurred and when the asset is put to use expenses are incurred in consumption.

8. If the balance of an account on the debit side of the trial balance where the benefit has already expired then it is treated as an expense.

   True: Debit balance of accounts are treated as expenses whose benefit is already received or expired.

9. Sales less cost of goods sold = gross profit.

   True: Gross profit is obtained by deducting cost of goods sold from sales.

10. If the debit side of the trading account exceeds its credit side then the balance is termed as gross profit.

    False: If the debit side of the trading account exceeds its credit side then the balance is termed as gross loss.

11. The provision for bad debts is debited to Sundry Debtors Account. (Dec 2021)

    False: The provision for bad debts is debited to debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head Debtors.

12. The provision for discount on creditors is often not provided in keeping with the principle of conservatism.

    True: According to the provision of conservatism provision is maintained for the losses to be incurred in future. Discount on creditors is an income so provision in not maintained.

13. The debts written off as bad, if recovered subsequently are credited to Debtors Account.

    False: The debts written off as bad, if recovered subsequently are credited to Bad Debts Recovered Account and becomes an income.

14. The adjustment entry in respect of income received in advance is debit Income received in advance account and credit income account.

    False: Income received in advance is reduces it from the concerned income in profit and loss account. And, it is shows it as a liability in the current balance sheet under the head Current Liabilities.

15. Premium paid on the life policy of a proprietor is debited to profit and loss account.

    False: Premium paid on the life policy of a proprietor is to be debited to capital account, as it is personal expense.

16. Depreciation account appear in the trial balance is taken only to profit and loss account.

True: Depreciation is charge on each of the asset on a certain percentage. Depreciation is a charge to profit and loss account and should be debited to profit & loss account by crediting the respective assets. If it appears in trial balance then it is taken only to profit and loss account.

17. Personal purchases included in the purchases day book are added to the sales account in the Trading account.

    False: Personal purchases included in the purchases day book are deducted from the purchases account in the Trading account.

18. Medicines given to the office staff by a manufacturer of medicines will be debited to salaries account.

    True: Any benefit given to the staff is debited to the salary account.

19. Goods worth ₹ 600 taken by the proprietor for personal use should be credited to Capital Account.

    False: Goods taken by the proprietor for personal use should be credited to Purchase Account as less goods are left in the business for sale.

20. If Closing Stock appears in the Trial Balance, the Closing inventory is then not entered in Trading Account. It is only shown in the Balance Sheet. (Nov 2018)

    True: The closing Stock appears in the trial balance only when it is adjusted against purchases by passing the entry. In this case, closing stock is not entered in Trading Account and is shown only in Balance Sheet..

21. A withdrawal of cash from the business by the proprietor should be charged to profit and loss account as an expense.

    False - Cash withdrawal by the proprietor from his business should be treated as his drawings and not a business expense chargeable to profit and loss account. Such drawings should be deducted from the proprietors capital.

22. In the balance sheet of X Limited, preliminary expenses amounting to ₹ 5 lakhs and securities premium account of ₹ 35 lakhs are appearing. The accountant can use the balance in securities premium account to write off preliminary expenses. (Nov 2020)

    True: According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company to write off preliminary expenses of the company. Thus, the accountant can use the balance in securities premium account to write off the preliminary expenses amounting ₹ 5 lakhs.

23. Outstanding salaries for the previous year shall be shown as liability in the current year balance sheet.

    False: It shall be disclosed as a current liability in the opening balance sheet.

24. Stock at the end, if appears in the Trial Balance, is taken only to the Balance Sheet.

    True: Because it depicts that one aspect of the double entry has been completed.

25. "Salary paid in advance" is not an expense because it neither reduces assets nor increases liabilities.

True: Salary paid in advance relates to the coming accounting period. It has nothing to do with the current period. Hence it is not taken in the Profit and Loss Account as an expense. It is shown as a Current Asset in the Balance Sheet.

26. If Closing Stock appears in the Trial Balance:

    The closing inventory in then not entered in Trading Account. It is shown only in the balance sheet.

    True: The closing stock appears in the trial balance only when it is adjusted against purchases by passing the entry (in which Closing Stock A/c is debited and Purchases A/c is credited). In this case, closing stock is not entered in Trading Account and is shown only in Balance sheet.

27. Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment. (Nov 2019)

    False: Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations other than for prompt payment.

28. Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. (Nov 2019)

    True: As per Perpetual Existence company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

INTRODUCTION TO COMPANY ACCOUNTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Every public company is a listed company.

   False: Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.

2. Shares of a private company are not listed on stock exchange.

   True: Only the shares of public company are listed on stock exchange. Every listed company is a public company.

3. It is not mandatory to incorporate a company under the companies act.

   False: It is mandatory to incorporate a company under the Companies Act. Without such incorporation, a company cannot come into existence.

4. Company is an artificial, legal person created by law.

   True: Company comes into existence through the operation of law. It is a separate entity distinct from it's members

5. Death, insolvency or change of members affects the existence of a company.

   False: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect it's existence.

6. If the shares are fully paid-up by the shareholder, he is subject to no further liability.

True: Liability of shareholders is limited to the extent of the unpaid share capital. So, if shares are fully paid-up, he is subject to no further liability.

7. Public limited company has restrictions on transferability of shares.

   False: Shares of public company are freely transferable. Transferability of shares is restricted in a private limited company.

8. Financial statements of company show the financial position of the business.

   True: Financial statements give a true & fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet, etc.

9. Schedule I gives proforma of Balance Sheet.

   False: Schedule III Part I explains form of Balance Sheet

10. When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with calls in arrear of shares forfeited.

    False: When shares are forfeited, the share capital account is debited with called up capital of shares forfeited and the share forfeiture account is credited with amount received on shares forfeited.

11. Re-issue of forfeited shares is allotment of shares but not a sale. (May 2018, Jan 2021)

    False: A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale as they have already been allotted earlier.

12. A Company is not allowed to issue shares at a discount to the public in general.

    True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

13. A person holding preference shares of a company cannot hold equity shares of the same company. (July 2021)

    False: Preference share holder can hold both Equity shares and Preference shares of the company. Any person can hold both kinds of shares.

14. Interest on calls in arrears is payable by company to shareholders.

    False: Interest on calls in arrears is payable by shareholders to company.

ISSUE, FORFEITURE AND RE-ISSUE OF SHARES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Liability of a holder of shares is limited to the face value of shares acquired by them.

   False: Liability of the holder of shares is limited to the issue price of shares acquired by them.

2. Authorised capital appears in the balance sheet at face value.

   True: Authorised capital is the amount of capital mentioned in 'capital clause' of the 'Memorandum of Association'. Authorised capital is considered only as presentation and not considered in total of balance sheet.

3. The rate of dividend on preference shares may vary From year to year.

   False: Rate of preference dividend is always fixed.

4. A company may issue shares at a discount to the public in general. (July 2021)

   False: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.

5. Sweat equity shares are those which are issued to employees & directors at a discount.

   True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

6. As per table F, rate of interest on calls in arrears is 12%.

   False: As per table F, rate of interest on calls in arrears is 10%.

7. As per Table F, rate of interest on calls in advance is 10%.

   False: As per Table F, rate of interest on calls in advance is 12%.

8. Non-participating preference shareholders enjoy voting rights. (Dec 2021)

   False: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

9. A forfeited shares is available to the company for the purpose of resale.

   True: Reissue of forfeited shares is not allotment of shares but only a sale.

10. Loss on reissue should exceed the forfeited amount.

    False: Loss on re-issue should not exceed the forfeited amount

ISSUE OF DEBENTURES

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Debenture holder are the owners of the company.

   False: Debenture holder are the creditors of the company.

2. Perpetual debentures are payable at the time of liquidation of the company.

   True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company.

3. Registered debentures are transferable by delivery.

   False: Registered debentures are not easily transferable by delivery. Bearer debentures are transferrable by delivery.

4. When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures

   True: In case the company cannot repay its loan & the interest thereon on the due date, the lender becomes debenture holder & them only he is entitled to interest on debentures.

5. Debentures suspense account appears on liability side of balance sheet. (May 2022)

   False: Debentures suspense account appears on asset side of balance sheet under non-current asset.

6. If a company incurs loss, then it does not pay interest to the debenture holders.

   False: Even if the company incurs or earns profit, it has to pay the interest on debentures.

7. At the time of liquidation, debenture holders are paid off after the shareholders.

   False: At the time of liquidation, debenture holders are paid off before shareholders on priority basis.

8. Convertible debentures can be converted into equity shares.

   True: At the time of liquidation, debenture holders are paid off before shareholders on priority basis.

9. Redeemable debentures are not payable during the life time of the company.

   False: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.

10. Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.

    True: Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.

11. Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.

    False - Debenture interest is payable before the payment of any dividend on shares.

12. Debenture holders enjoy the voting rights in the company.

    False: Debenture holder does not enjoy voting rights in company. He is only a creditor of the company.

INTRODUCTION TO PARTNERSHIP ACCOUNTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. In absence of any agreement partners share profits of the business in the ratio of their capital contribution.

   False: In absence of any agreement partners share profits equally and not in capital contribution ratio.

2. Profit sharing ratio and capital contribution ratio need not be same.

   True: Profit sharing can be different from the that of the capital introduced by each of the partner. Not necessary that partner contributing more capital should have a higher profit sharing ratio and vice versa

3. Every partnership firm must register itself with Registrar of firms.

   False: Registration of firms is not compulsory under Indian Partnership Act 1932

4. A partner can advance loan to the partnership firm in addition to capital contributed by him.

   True: Yes loan is given to the firm at a cost. Where the partnership deed is absent, then the interest shall be paid at a minimum of 6% per annum. So the interest on the loan to be paid to the partner.

5. A partner can demand interest on capital even if it is not provided in the partnership deed.

   False: Interest on capital can be paid only if it is provided in the partnership deed.

6. If a partner does not take part in day to day business activities of the firm then he is not entitled to any share of profit.

   False: Every partner need not take part in the business. Even if a partner does not take part in the business he is entitled for his share of profit.

7. Interest should be paid @ 6% p.a. on partners' loan even if it is not provided in the partnership deed.

   True: Yes as per the provisions of the law- it is necessary that the interest on loan at 6% per annum shall be paid to the concerned partner.

8. Husband and wife can not be partners in the same firm.

   False: Husband and wife can be partners in the same firm.

9. One senior partner is Principal and other partners are his agents.

   True: There is no senior or junior partner. Every partner is agent/principal of other partners.

10. Partners are the agents of the firm and each other.

    True: Concept of agency applies to every partner and the firm as well. So each partner is a principal to and agent of every other partner and to the firm.

11. When there is no agreement among the partners, the profit or loss of the firm will be shared in their capital ratio.

    False: According to the Indian Partnership Act, in the absence of any agreement to the contrary, profits and losses of the firm are shared equally among partners.

12. Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932 (May 2019)

    False: The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership. Limited Liability (LLPs) Act, 2008 is applicable for Limited Liability Partnerships.

13. Partners can share profits or losses in their capital ratio, when there is no agreement.

    False - According to Partnership Act, in the absence of any agreement to the contrary profits and losses are to be shared equally among partners.

14. A partnership firm can acquire fixed assets in the name of the firm.

    False: A partnership firm cannot acquire fixed assets in its name since it is not a separate legal entity. It acquires fixed assets in the name of its partners.

15. When there is no partnership deed prevails, the interest on loan of a partner to be paid @ 6%. (May 2018)

    True: When there is no partnership deed then the provisions of the Indian Partnership Act are to be applied for settling the dispute. Interest on loan is payable @ 6% p.a. as per Indian Partnership Act.

16. A Partnership firm cannot own any Assets. (Nov 2019)

    True: A partnership firm is not a distinct legal entity and therefore can't own any assets. The partners own the assets of the firm.

TREATMENT OF GOODWILL IN PARTNERSHIP ACCOUNTS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR **FALSE:**

1. Goodwill is intangible asset therefore it cannot be valued.

   False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units

2. Goodwill is valued whenever there is change in the constitution of the business.

   True: Goodwill has to be valued each time when there is a reconstitution to made good the sacrifice made by few partner due to such reconstitution.

3. Goodwill is excess earning capacity of the business attributable to many reasons.

   True: Goodwill is the brand image the firm has in the market due to which it enjoys an advantageous position over the other players in the market

4. At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and shown as an asset.

   False: At the time of admission or retirement of a partner, goodwill can be raised in the books of accounts and it is immediately written off. It can not remain in the books of accounts as asset in balance sheet as per accounting standard .

5. Only simple average method can be used for valuation of goodwill.

   False: Weighted average profit method, cpaitlisation method, super profits methods also can be used for valuation of Goodwill.

6. Super profit means excess of actual average profit over normal profit.

   True: It is capacity of the firm to earn excessive profits over the industry normal evidencing the fact that the firm experiences higher goodwill.

7. Normal profit means profit earned by similar companies in the same industry.

   True: The rate of return is considered as an average for the industry, which is applied to the capital employed in the concerned firm.

8. Normal profit depends upon Normal Rate of Return and past profits.

   False: Normal profit depends upon Normal Rate of Return only and not on past profits.

9. At the time of admission/retirement of a partner, since goodwill can not be raised in the books of accounts is recorded through capital accounts of the partners.

   True: Generally the goodwill at the time of admission id adjusted through the capital accounts and not shown in the books of the firm.

10. At the time of admission of a partner, goodwill brought in by the new partner is shared equally by old partners.

    False: Goodwill brought in by new partner is shared by old partners in Sacrifice Ratio and not equally.

11. Goodwill is intangible asset therefore it cannot be valued.

    False: Even though Goodwill is intangible asset it can be valued in terms of money. It can be measured in terms of physical units.

ADMISSION OF A NEW PARTNER

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. A newly admitted partner does not have same rights as old partners.

   False: All the partners have same rights / or agreed by the partners.

2. When a new partner is admitted, old partners have to forego certain share in profits of the firm, this is called as sacrifice ratio.

   True: With every new partner, remaining old partners have to foregone a proportion in their share which is called as sacrifice ratio

3. Revaluation account is also called as Profit and Loss Adjustment Account.

   True: Revaluation is also called as profit and loss adjustment account.

4. Any appreciation in the value of an asset is credited to Revaluation account.

   True: increase in Asset is an income hence credited to revaluation account.

5. All the partners may decide not to change the values of assets and liabilities in the books of accounts.

   True: This can be done by opening Memorandum Revaluation Account.

6. New partner is entitled to have share in Reserves appearing in the balance sheet prior to his admission.

   False: New partner is not entitled to have any share in the reserves of the firm prior to his admission. Such reserves are distributed to old partners in their old profit sharing ratio.

7. Any Reserve appearing in the Balance Sheet is credited to existing partners equally.

   False: Any Reserve appearing in the Balance Sheet is credited to existing partners in their old profit sharing ratio and not equally.

8. If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners equally.

   False: If revaluation account shows credit balance then it represents profit and therefore it is credited to all partners in their profit sharing ratio and not equally.

9. New partner brings in necessary amount as his capital.

   True: Every incoming partner shall bring in some amount of capital for the firm

10. New partner is entitled to share in revaluation profit.

    False: New partner is not entitled to profit on revaluation, it belongs to old partners in their profit sharing ratio.

11. In case of admission of a new partner in a partnership firm, the profit / loss on revaluation account is transferred to all partners in their new profit sharing ratio. (Nov 2020)

    False: In case of admission of new partner in a partnership firm, profit/loss on revaluation account is transferred to old partners in their old profit-sharing ratio.

RETIREMENT OF A PARTNER

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Business of a partnership has to be closed if any one partner retires.

   False: Business of a partnership is not closed if any one partner retires, remaining partners continue to carry on the business.

2. At the time of retirement of a partner no special treatment is required for any reserves appearing in the Balance Sheet.

   False: At the time of retirement of a partner all the reserves appearing in the balance sheet are transferred to all the partners in their profit sharing ratio.

3. After retirement of a partner, profit sharing ratio of continuing partners remains the same.

   False: After retirement of a partner, profit sharing ratio of continuing partners does not remain the same.

4. If any partner wants to retire from the business, he must retire on 1st day of the accounting year.

   False: A partner can retire on any day as per his wish

5. Retiring partner has to forego his share of goodwill in the firm.

   False: Retiring partner is entitled to his share of goodwill in the firm.

6. If a partner retires in between the accounting year then he is not entitled to any profit from the date of beginning of the year till his date of retirement.

False: If a partner retires in between the accounting year then he is certainly entitled to the profit from the date of beginning of the year till his date of retirement.

7. If the firm has taken any joint life policy then it is to be surrendered on retirement of a partner.

   True: Yes the firm is eligible for the surrender value on the the JLP taken on the partners.

8. Any joint life policy reserve appearing in the Balance Sheet is credited to all the partners in their old profit sharing ratio.

   True: As per the surrender policy method, the JLP reserve is distributed to the partners in their profit sharing ratio through capital account.

9. No revaluation account is necessary on retirement of a partner.

   False: Revaluation account is necessary on retirement of a partner.

10. Profit on revaluation is credited to continuing partners, retiring partner is not entitled to any profit on revaluation.

    False: Profit on revaluation is credited to all the partners in their profit sharing ratio.

DEATH OF A PARTNER

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. Business of partnership comes to an end on death of a partner. (July 2021)

   False: Surviving partners continue to carry on the business.

2. Legal heir of a deceased partner automatically becomes partner in the firm.

   False: Legal heirs of deceased partners are entitled to dues of the deceased partner. They can not become partner in the business.

3. A revaluation account is opened in the books of accounts on death of a partner.

   True: To find out the actual values of the assets and liabilities, revaluation account is prepared.

4. Any reserve appearing in the balance sheet on the date of death of a partner is transferred to all partners capital account in their profit sharing ratio.

   True: reserves belong to the partners in the same manner the capital contributed by them. Hence it is distributed to them through the capital account.

5. Legal heirs of a deceased partner are entitled to his capital account balance only.

   False: Legal heirs of a deceased partner are entitled to all the dues of deceased partner.

6. It is not necessary to adjust goodwill on death of a partner.

   False: It is very much necessary to adjust goodwill on death of a partner.

7. On death of a partner continuing partners can agree to change their capital contribution and profit sharing ratio.

   TRUE- Yes, it can be continued in the earlier share or in new share- in either case it leads to computing a new profit sharing ratio

8. On death of a partner, the firm gets surrender value of the joint life policy.

   False: On death of a partner the firm gets full value of sum assured of the joint life policy.

9. Only legal heirs of deceased partner are entitled to amount received from joint life policy.

   False: All the partners are entitled to amount received from joint life policy.

10. Business of partnership comes to an end on death of a partner.

    False: Surviving partners may continue to carry on the business in case of partnership.

FINANCIAL STATEMENTS OF NOT-FOR-PROFIT ORGANIZATIONS

A) STATE WITH REASONS, WHETHER THE FOLLOWING STATEMENTS ARE TRUE OR FALSE:

1. The Receipts and payment account for a non-profit organization follows the accrual concept of accounting.

   False: It depicts the cash system of accounting rather than the accrual system, as the cash receipts and payments pertaining to any year are entered in the Receipts and payments account. The principle of accrual is not followed with regard to the receipts and payments account of a non-profit organization.

2. Both the revenue and capital nature transactions are recorded in the Income and expenditure account.

   False: The income and expenditure account records only the revenue income and expenditure. The capital transactions are being recorded in the Balance sheet.

3. Sale of grass by a sports club is to be treated as sale of an asset.

   False: The grass for a sports club is not a capital item, hence the sale of such grass shall be treated as a revenue receipt.

4. Subscriptions outstanding for the current year are disclosed under the Fixed assets side of the Balance sheet.

   False: They are disclosed under the current assets of the Balance sheet as they will be paid within the next year and not to be treated as non-current assets.

5. *Receipts and payments account gives the details about the expenses outstanding for the year.*

   False: *Receipts and payments account gives information about the expenses paid in cash for the current year, previous or the next year. It is only from the additional information we identify the outstanding expenses.*

6. *Adjustments in the form of additional information shall be adjusted in the final accounts of an Non- profit organisation only in one place.*

   False: *Additional information means that information which has been identified just before the preparation of the final accounts. As NPO follows the double entry system of book keeping, there shall be 2 effects for each of the additional information.*

7. *Tournament expenses incurred are more than the Tournament fund, then the excess to be shown as an asset in the closing Balance sheet.*

   False: *The excess of expenditure over the tournament fund shall be debited to the income and expenditure account and not taken to the closing balance sheet.*

8. *For an Non-profit organisation, Excess of income over expenditure in the Income and Expenditure account is termed as profit.*

   False: *The excess of the income over the expenditure is called as Surplus and not profit for an Non- profit organisation.*

9. *Surplus of non-profit organizations is distributed among its members.*

   False: *The Non-profit organisation credits the surplus earned in a year to the general fund maintained by it.*

10. Tournament fund, building fund, library fund is based on the fund based accounting.

    True: It is Fund based accounting that records the fund balances in the balance sheet.

11. Subscription fees refers to the one-time fees paid by the memberships to get admission to the benefits of the club.

    False: Subscription is a regular fees paid by the members to keep the membership alive.

12. Token payment made to a person, who voluntarily undertakes a service which would normally be paid in case of profitable organization is termed as Honorarium.

    True: Honorarium refers to the nominal amount paid for the services with a non-commercial intent.

13. An Insurance company is an example of non-profit organization.

    False: Insurance Company has a profit motive, hence it is not a non-profit organization.

14. Part amount of entrance fees which is to be capitalized shall be disclosed in the income and expenditure account.

    False: It shall be shown in the Balance sheet- where it is to be capitalized.

15. Both the income and expenditure of the current and the previous year are recorded in the Income and Expenditure account.

    False: It is only the current year income and expenditure which is recorded in the Income and Expenditure account as per the accrual concept.

16. Amount received as donation by an Non-profit organisation under the will of a deceased person is termed as legacy.

    True: While on the death bed, if there is any will written that the assets of a person shall be donated to any NPO- then such a donation to the NPO, is termed as LEGACY.

17. Where a Non-profit organisation has a separate trading activity, the profit/loss from the trading account shall be transferred to Income and Expenditure Account at the time of consolidation.

    True: Where in case of the trading activities, the profit /loss from such activity to be transferred to the Income and expenditure account in case of consolidated accounts.

18. Not for profit concerns concentrate their efforts to maximize the profit earning avenues.

    False: The Non-profit organisation has its very existence to the main base line of serving the members and the society. Profit earning shall never be its motive.

19. All the receipts are of revenue nature in case of Non-profit organisation.

    False: Receipts can be both of revenue as well as capital nature. Receipts of both the nature are recorded in the receipts and payments account.

20. There is opening balance of Income and expenditure account.

    False: It represents a nominal account and is prepared in accordance with the accrual concept, hence there can be no opening balances.

21. Receipts and Payments Account highlights total income and expenditure.

False- Receipts and payments account is a classified summary of cash receipts and payments over a certain period together with cash and bank balances at the beginning and close of the period.

22. In case a Sports Fund is kept, expenses on account of sports events should be charged to Sports Fund.

    True: Institutions sometimes keep special funds for some special purposes. In such a case the income related to such funds should be added to these funds and expenses should be deducted from such funds.

23. Laboratory & library Deposits taken from the students in case of an Educational Institution are shown on the liabilities side of the Balance Sheet.

    True: Because the laboratory and library deposits are of the nature of security deposits to be refunded to the students on their leaving the College or University.

24. Fees received for Life Membership is a revenue receipt as it is of recurring nature. (Nov 2018)

    False: Life Membership Fee received for life membership is a capital receipt as it is of non-recurring nature. It is directly added to capital fund or general fund.