

BASICS

1. Depreciation is a non-cash expense and does not result in any cash outflow.
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.
2. Fees received for Life Membership is a revenue receipt as it is of recurring nature.
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.
3. Sale of office furniture should be credited to Profit and Loss Account.
False: Sale of office furniture should be credited to Furniture account since it is a capital receipt.
4. Debenture holders enjoy the voting rights in the company.
False: Debenture holders do not enjoy voting rights in company.
5. Any amount spent to minimize the working expenses is revenue expenditure.
False: It may be reasonably presumed that money spent for reducing revenue expenditure would have generated long-term benefits to the entity. So this is capital expenditure.
6. Expenses incurred on the repairs for the first time on purchase of an old building are capital expenditure.
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.
7. The provision for bad debts is debited to sundry debtors account.
False: The provision for bad debts is debited to Profit and loss Account, in Balance Sheet it is shown either on liability side or deducted from the head debtors.
8. 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.
9. 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).
10. Any amount spent for replacement of worn out part of a 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.

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

False : Trade discount is allowed for increasing sales of goods or services.
12. A Partnership firm cannot own any Assets.

False : Firm can own assets, But for Purchasing a Fixed Asset Partnership Firm Must Be Registered.
13. Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

True : Company has existence independent of its members.
14. Subsidy received from the government for working capital by a manufacturing concern is a revenue receipt.

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.
15. The Sale Book is kept to record both the cash and credit sales.

False; Sales Book is a register specially kept for recording credit sales of goods dealt in by the firm, cash sales are entered in the Cash Book and not in the Sales Book.
16. There are two ways of preparing an account current.

False; There are three ways of preparing an Account Current: with help of interest table; by means of products and by means of products of balances.
17. 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.

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.
18. Insurance claim received on account of plant and machinery completely damaged by fire is a capital receipt.

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.
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 Purchases Account as less goods are left in the business for sale.
20. Re-issue of forfeited shares is allotment of shares but not a sale.

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.

21. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
22. In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.
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.
23. Consignment account is of the nature of real account.
False: Consignment account is a nominal-cum-personal account.
24. The balance in petty cash book represents an asset.
True: The balance represents the cash physical in existence and is therefore an asset.
25. 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.
26. 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.
27. 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%).
28. All the personal & real accounts are recorded in P&L A/c.
False: All the personal & real accounts are recorded in balance sheet.
29. Amount spent on the 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 a part of its maintenance cost.
30. Interest on calls in arrears is payable by company to shareholders.
False: Interest on calls in arrears is payable by shareholders to company.
31. 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.

32. 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.

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

False - Finished goods are normally valued at cost or net realizable value whichever is lower.

34. 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 proprietor's capital.

35. That portion of an expenditure whose benefit has been exhausted is called unexpired expenditure.

False: Unexpired Cost- That portion of an expenditure whose benefit has not yet been exhausted.

36. 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.

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

False: Historical cost is Rs. 10,00,000

38. 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 the Trial Balance tallies.

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

False: In order to balance the difference of balances in the trial balance suspense account is opened.

40. 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.

41. 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.

42. There is no entry passed by the consignee in his books for the remaining stock of goods lying with him.

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

43. Consignment account is a representative personal account.
False: It is a nominal account recording the expenses on the debit and the income on the creditside balance being the profit/loss in the consignment account to the trading account.
44. Interest should be paid @ 6% p.a. on partner's loan even if it not provided in the partnership deed.
True: Interest of Partnership Deed, interest at the rate of 6% p.a. is to be allowed on a partner'sloan to the firm.
45. An insurance company is an example of non-profit organisation.
False: Insurance companies has a profit motive, hence it is not a non-profit organisation.
46. At the time of liquidation, debentures holders are paid off after the shareholders.
False: At the time of liquidation, debenture can be converted into equity shares after a certain period of time from the date of its issue.

GEARING UP

47. Overhauling expenses for the engine of motor car to get better fuel efficiency is revenue expenditure.
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.
48. 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.
49. 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 the temporary huts were necessary for the construction, their cost should be added to the cost of the cinema hall and thus capitalised.
50. 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.
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".
51. Limited Liability Partnership (LLP) is governed by Indian Partnership Act, 1932.
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.

52. Warehouse rent paid for storage of finished inventory should be included in the cost of finished inventory.

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

53. The specific due date excludes the addition of grace days to arrive at the due date.

True: Where the due date is specifically given, then there is no need of further addition of 3 days grace to it.

54. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.

False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle and/or Errors of Omission, which can be rectified without opening a suspense account.

55. 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.

False : In case of Bills of exchange, Drawer & payee may be same person when the Bill hold by drawer up to the date of Maturity.

56. 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.

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.

57. Purchase of office furniture & fixtures of ` 2,500 has been debited to General Expense Account. It is an error of omission.

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.

58. 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 under a sale invoice.

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

59. 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.

60. Expenses in connection with obtaining a license for running the Cinema Hall is Revenue Expenditure.

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.

61. 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.

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.

62. 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.

63. 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.

64. 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.

65. 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.

66. Amount of Goodwill brought by New Partner is distributed among old Partner in New Ratio.

False – It is distributed in old Partner in Sacrificing ratio.

67. 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 materialized.

68. 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 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.

69. Journal proper is also called a subsidiary book.

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

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

True: Since sales return is reduction from total sales value, it is debited in the sales account.

71. 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.

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

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

True: Sum of years digital method depreciation is calculated as $10/55 \times (12,00,000 - 1,00,000) = 2,00,000$

74. Normal commission is paid to the consignee to bear the risk of the bad debts in 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.

75. A is in account current with B – The person rendering the account current is Mr. A.

False: It is B who is preparing and rendering the account current to Mr. A.

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

True: The firm is eligible for the surrender value on the joint life policy taken on the partners at the time of their retirement.

77. Tournament expenses incurred more than the Tournament Fund, then the excess is to be shown as an asset in the closing Balance Sheet.

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

78. Amount received as donation by a Non-profit organisation under the will of deceased partner is termed as legacy.

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

79. A company may issue shares at a discount to the public in general.

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.

80. 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.

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

TOP GEAR

81. If Closing Stock appears in the Trial Balance: The closing inventory is 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.

82. If del-credere commission is paid to consignee, the loss of bad debts is to be borne by the consignor.

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 are no more the loss of the consignor and are borne by the consignee.

83. In case of consignment sale, ownership of goods will be transferred to consignee at the time of receiving the goods.

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.

84. 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.

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.

85. A person holding preference shares of a company cannot hold equity shares of the same company.

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

86. Debentures Suspense Account appears on the Liability side of the Balance Sheet of a Company.

False: Debentures Suspense Account appears on asset side of Balance Sheet under Non-Current Asset.

87. 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.

False : It is capital expenditure.

88. Accounting Standards for non-corporate entities in India are issued by the Central Government.

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

89. 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.
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
90. 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.
91. 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.
92. The drawer's signed assent on bill of exchange to the order of the drawee is called an acceptance.
False: The drawee signed assent on the bill of exchange, to the order of the drawer. This term is also used to describe a bill of exchange that has been accepted.
93. A contingent liability need not to 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.
94. 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.
95. The value of ending inventory under simple average price method is realistic as compared to LIFO.
True: Value of closing stock as per average method is more realistic than LIFO.
96. 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.
97. 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.
98. 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.
99. 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%.
100. 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%.